

Lease of agricultural lands

– 2003

- Lease as a form of land consolidation: dynamics of changes in 2001-2003
- Lease agreements: stability, terms, payment
- Problematic aspects of lease
- Lease and (or?) production cooperatives: lessees' and landowners' evaluations and preferences

This study was supported through the funds provided by the U.S. Agency for International Development. The opinions expressed herein are those of the authors and do not necessarily reflect the views of the USAID.

Table of Contents

INTRODUCTION.....	3
1. STRUCTURAL CHANGES IN THE AGRARIAN SECTOR RESULTING FROM PRIVATIZATION.....	4
3. SCALE AND DYNAMICS OF LEASE RELATIONS	10
3.1. STRUCTURE OF LAND AREAS IN COMMUNITIES.....	10
3.1.1. AGRICULTURAL LAND FRAGMENTATION AS A RESULT OF PRIVATIZATION.....	10
3.1.2. LEASE AS A MAJOR TYPE OF LAND USE IN COMMUNITIES	11
3.2. SCALE OF LAND LEASE: TENDENCIES IN 2001-2003.....	13
3.3. WHO LEASES LAND: LEGAL FORM AND DEADLINES FOR LESSEES' ENTERPRISE REGISTRATION	16
3.4. SOCIAL AND DEMOGRAPHIC CHARACTERISTICS OF LEASE SUBJECTS	18
3.5. PARTICIPATION OF LESSORS AND THEIR FAMILY MEMBERS IN LESSEES' ENTERPRISES	20
3.6. SOCIAL STATUS OF LESSORS	22
3.7. REASONS FOR LAND LEASE	22
4. LEASE AGREEMENT: RELIABILITY, TERMS, PAYMENT.....	24
4.1. LEGAL REGISTRATION OF LAND LEASE AGREEMENTS	24
4.2. PROBLEMS RELATED TO EARLY TERMINATION OF LAND LEASE AGREEMENTS	29
4.3. LAND LEASE PAYMENT FORM	31
4.4. IMPLEMENTATION OF AGREEMENT PROVISIONS	34
4.5. SATISFACTION WITH LEASE AGREEMENT PROVISIONS AND LAND USE	35
5. PERSPECTIVES FOR LAND LEASE STABILITY.....	38
5.1. NEED FOR FUNDS, ACCESS TO CREDITS.....	38
5.2. FUTURE INTENTIONS OF LESSEES	39
5.3. LEASE RELATIONS PERSPECTIVES AS VIEWED BY LESSORS AND LESSEES.....	41
5.4. LAND SALE/PURCHASE PLANS	42
6. POSITION REGARDING REVIVAL OF COLLECTIVE FARMS (PRODUCTION COOPERATIVES).....	43
6.1. LANDOWNERS' AND LESSEES' AWARENESS OF THE DEVELOPED DRAFT LAW ON AGRICULTURAL LAND CONSOLIDATION.....	43
6.2. TRANSFER OF LAND TO PRODUCTION COOPERATIVES.....	43
6.3. LESSEES' POSITION REGARDING CREATION OF PRODUCTION COOPERATIVES.....	45
6.4. PREFERENCES AND PROJECTIONS FOR THE FUTURE OF DIFFERENT LEGAL FORMS OF AGRICULTURAL ENTERPRISES	49
CONCLUSIONS AND RECOMMENDATIONS.....	51
ANNEX 1.....	54
ANNEX 2.....	55
ANNEX 3.....	59

Introduction

Over 1 million rural residents became land shareholders after the end of the mass land privatization and reorganization of collective agricultural enterprises. More than 200 thousand peasant farms owning 1.8ha of land each became the most typical economic entities farming the land.

Taking into account all advantages of private property, such an agricultural land fragmentation has become, however, one of the major problems of the agricultural sector in Moldova after privatization. Solving this problem is necessary for increasing the productivity and salability of agriculture; the efficiency of labor force, equipment and high technologies utilization; and for the growth of income and poverty liquidation in the rural areas.

Land market development in Moldova after 2000 became apparent, primarily, in form of lease, which turned to be the principal form of consolidation of land used by the new subjects of the land system – lessees as limited liability companies, peasant farms associations, production cooperatives, joint stock companies and individual enterprises of peasants-leaders.

The fact that land fragmentation resulting from mass land privatization has not led to further decline in the agrarian sector output, which was annually observed until 1999, can possibly be explained by the quick spread of property leases. Moreover, official statistics noted an output growth by 6.4% in 2001 and 3.0% in 2002. In the year 2003, which was extremely adverse due to weather conditions, the reduction was only 3%. It is also important to note that a major part of leased land areas is used for growing export-oriented crops such as grain, sunflower, sugar beet and grapes. From the very beginning, the phenomenon of property lease and the problems related to it, such as presence of agreements and their provisions, efficiency of land use, the need for credit and machinery, drew close attention of the Government and research organizations.

In March 2001, the Center for Strategic Studies and Reforms (“CISR”) non-governmental organization undertook a targeted research called Land Lease in the Republic of Moldova based on the sociological survey of 1.5 thousand peasants–landowners and 464 lessees in 326 villages. It was established that the average size of land farmed by an enterprise functioning on a lease basis was 680ha. The research made it clear that, on the whole, rural residents have a positive attitude towards land lease. At the same time, it revealed a number of problems in the legal, financial and organizational spheres of this land market segment.

After three agricultural seasons (spring through autumn), there appeared a need for another research on land lease. The task was to reveal its scale, stability and efficiency as well as social status of lease relations subjects (lessors and lessees) and their opinion on the lease prospects. It was also important to reveal the attitude of peasants–land owners and lessees toward the proposal of land consolidation through organization of production cooperatives.

The present study was undertaken in December 2003 by the Center for Strategic Studies and Reforms (Anatoly Gudym – economist, Valentine Turkan – sociologist, Ion Jigau – programmer) in cooperation with the working groups formed from lawyers, agriculturists and economists in three major geographical and economic zones of the Republic of Moldova – north, center and south. The sociological survey was undertaken in the period of November 12 – November 27, 2003 in 302 communities of 32 administrative rayons and TAU Gagauzia. The respondents included peasants–land shareholders, lessees and village mayors, over 1200 persons on the whole.

1. Structural Changes in the Agrarian Sector Resulting from Privatization

Beginning in 1991, the Republic of Moldova has carried out a number of cardinal reforms affecting all spheres of its social and economic arrangement. The reforms were aimed at the formation of political, legal and economic footing for the market economy functioning on the basis of a predominant private sector. The agrarian reform was carried out in conformity with the Concept of an Agrarian Reform as well as Social and Economic Development of the Rural Area authorized by the Parliament. It covered the following major directions:

- Mass privatization of land including its in-kind allocation and issuance of legal documents confirming the ownership rights;
- Privatization of the collective and state agricultural enterprise's property;
- Reorganization of both collective and state farms and the formation of new types of enterprises on their basis;
- Debt restructuring of collective and state enterprises;
- Formation of a market system for the interaction of economic entities in agriculture and processing industry;
- Formation of enterprises for the agrarian sector market infrastructure.

After becoming economically independent, a majority of agricultural enterprises joined business activities and started changing their statuses and forms of functioning. The enterprises were transformed into peasant farms, limited liability companies, cooperatives, joint stock companies, etc., and quite soon, i.e. in 3-4 years, they became the core of agrarian business.

As a result, the number and legal forms of economic entities functioning in the agrarian sector changed radically. In 1991 there were 1004 economic entities including 534 kolkhozes, 400 sovkhozes and 70 inter-farm enterprises functioning in Moldova's agriculture. Five years later, i.e. in 1996 their number was already 17240. This number included both "former type" i.e. 236 kolkhozes, 395 sovkhozes and 34 inter-farm enterprises, and the "new forms" of enterprises such as 160 joint stock companies, 194 production cooperatives, 11 limited liability companies, 146 peasant farm associations and 16064 peasant farms¹.

After the end of mass land privatization, collective farm reorganization and the appearance of the land market, the number of economic entities in agriculture increased. By 2003, their number reached 270 thousand units including 268 thousand peasant farms².

Thus, the process of mass transformation of the agrarian sector's organizational structure can be considered basically completed. Currently, the viability of these newly created enterprises as well as their ability to adapt to market competition conditions and to ensure steady development of the agrarian sector is of top priority.

This adaptation was complicated with the avalanche-like decline in agricultural production that in 2000 made only 45% of that of 1990. The industrial infrastructure of the agro-industrial complex as well as the rural social infrastructure was destroyed. At this time, unemployment increased dramatically and there was mass labor migration of rural residents abroad to earn their living. All this resulted in a reduction of the economically active rural population.

Nevertheless, during the last few years, the agricultural output increased in both the plant growing and livestock breeding industries. In 2002, the plant growing output made 6148

¹ Agriculture of the Republic of Moldova, State Department of Statistics, Chisinau, 1996, p. 8-9

² Statistical Yearbook of the Republic of Moldova, DASS, p. 421

million lei in current prices versus 2687 million lei in 1995. The indices of livestock breeding industry were somewhat lower - 2995 million lei in 2002 against 1393 million lei in 1995 (*Table 1.1*).

Table 1.1
Agricultural output in all categories of farms (in current prices), mln lei

	1995	1996	1997	1998	1999	2000	2001	2002
The total of agricultural output	4243	4639	5100	4775	6396	8268	8646	9474
<i>Including:</i>								
Plant growing output	2687	2941	3186	2875	4206	5790	5727	6298
Livestock-breeding output	1393	1552	1730	1699	2004	2202	2655	2870
Services	163	146	184	201	186	276	264	306
Specific weight of plant growing industry in the total of agricultural output, %	63,3	63,4	62,5	60,2	65,8	70,0	66,2	66,5
Specific weight of livestock-breeding industry in the total of agricultural output, %	32,8	33,4	33,9	35,6	31,3	26,6	30,7	30,3

Source: *Statistic Yearbook of the Republic of Moldova – 2002*, p. 406

When considering the current rate of change in the nature of property and forms of economic activity in Moldova's agriculture, issues relating to stability and efficiency of the new management system in the agrarian sector remain open. A majority of these issues are of the long lasting nature, such as sources for funding agricultural modernization, rational use of land and preservation of its fertility, maintenance of high (export-oriented) marketability and competitiveness of products, renovation of machinery and introduction of effective technologies, development of agricultural services, etc.

At the same time, efficient use of land remains a key issue. According to the data from the Land Cadastre (2002), the state owns 13% of the total agricultural land including 10% of land from the State Reserve Fund. A major part of agricultural lands (87%) was transferred into the private sector ownership; and thus the relationship between the individual and corporate sectors as well as the economic capacity of enterprises with different legal forms and categories of land use is gradually getting shape within its structure (*Table 1.2*).

Table 1.2
Structure of agricultural lands based on the categories of land users

<i>Land users</i>	<i>2001, as of January 1</i>		<i>2002, as of January 1</i>	
	<i>Area, Thousand ha</i>	<i>Structure, %</i>	<i>Area, Thousand ha</i>	<i>Structure, %</i>
Total of agricultural lands	2278.3	100	2274.5	100
<i>Including the following land users:</i>				
Enterprises and organizations	754.1	33.1	751.3	33.0
Peasant farms	791.7	34.8	796.5	35.0
<i>Including those:</i>				
With the average size of land plots below 50ha	648.7	28.5	603.1	26.5
<i>Including those:</i>				
With the average size of land plots below 10ha	595.3	26.2
Households (house adjacent parcels and gardens)	315.3	13.8	312.8	13.8
Dacha cooperatives and land parcels under gardens	5.4	0.2	7.3	0.3
Other types of land users	411.8	18.1	406.6	17.9

Source: *Agricultural Activity of Individual Households and Peasant Farms in the Republic of Moldova in 2002 (statistic survey results)*, Chisinau – 2003, p. 46

As one can see from table 1.3, during the last three years a major part (64-69%) of the area under cultivation has been used for growing cereals. Thus, the growth is observed with the areas under winter wheat (from 22.6% in 1995 up to 28.1% in 2002) and corn – from 20.1 up to 28.4%. The areas under sunflower have also extended, while the areas under forage crops have decreased considerably, which impacts negatively the rotation of predecessors for winter crops. The reduction of areas under forage crops can be explained by the sharp reduction of livestock that used to be concentrated in large cattle-breeding complexes before 1995. In spite of steady livestock growth in the private sector, it has not yet recovered the losses suffered from the significant complex closures.

Table 1.3
Structure of the used areas under crops in all categories of enterprises, %

<i>Kinds of crops</i>	<i>1995</i>	<i>1996</i>	<i>1997</i>	<i>1998</i>	<i>1999</i>	<i>2000</i>	<i>2001</i>	<i>2002</i>
Total of areas under crops	100	100	100	100	100	100	100	100
<i>including:</i>								
Cereals and leguminous plants, total	54.1	53.6	61.9	61.4	63.1	64.7	69.2	68
<i>including:</i>								
Winter wheat	22.6	21.9	23.1	23.3	22.9	24.2	27.9	28.1
Winter barley	4.1	3.1	3.1	2.8	2.8	3.3	3.9	-
Spring barley	3.2	2.8	3.8	4.3	4.5	3.6	2.4	-
Seed corn	20.1	22.2	28.1	26.2	27.2	28.9	30.3	28.4
Leguminous plants	3.2	2.7	2.8	3.5	4.0	3.3	3.3	3.6
Technical crops, total	16.7	19.7	17.6	20.2	21.6	21.6	19.4	21
<i>including:</i>								
Sugar beet	5.4	5.0	4.6	4.7	4.1	4.1	3.8	3.2
Sunflower seeds	9.3	13.0	11.3	13.4	14.6	14.9	13.4	16.3
Soybeans	0.2	0.1	0.1	0.4	1.1	0.8	-	0.6
Tobacco	1.3	1.1	1.1	1.4	1.3	1.5	1.1	0.6
Potatoes, vegetables, melons and gourds	8.2	7.8	8.1	7.7	8.2	8.2	7.3	6.8
<i>including:</i>								
Potato	3.7	3.9	4.0	4.1	4.5	4.3	2.7	2.8
Open ground vegetables	3.9	3.4	3.5	3.2	3.2	3.3	4.0	3.5
Fodder crops	21.0	19.0	12.4	10.7	7.1	5.5	4.1	4

Source: Statistical Yearbook of the Republic of Moldova, 2002; Moldova in Numbers - 2003, p. 177

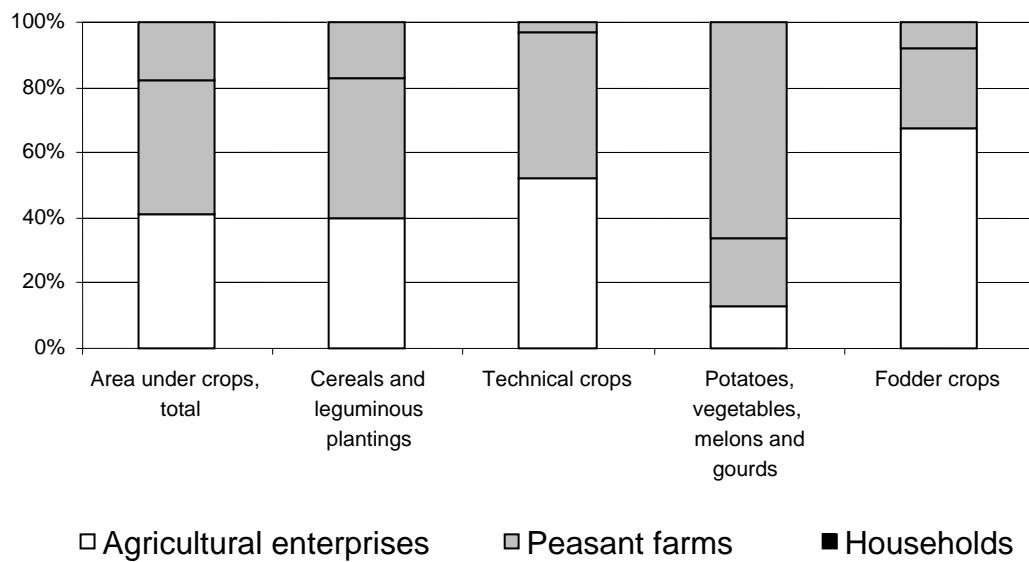
One may ask a rightful question of how the changes in land ownership and types of economic entities influence the structure and results of the agrarian sector. Certain information can be obtained from chart 1.1 and tables 1.4 – 1.5.

Table 1.4
Agricultural gross output based on the ownership forms in the comparable prices of 2000

	<i>1995</i>	<i>1996</i>	<i>1997</i>	<i>1998</i>	<i>1999</i>	<i>2000</i>	<i>2001</i>
Total, mln lei	10292.0	9070.0	10108.0	8935.0	8184.3	7917.0	8427.6
<i>Including the following ownership forms:</i>							
Public	1021.9	645.1	506.7	328.2	183.1	98.2	78.8
Private	9270.9	8425.6	9601.3	8606.8	8001.2	7818.8	8348.8
<i>Including:</i>							
Collective	5143.2	4110.6	4757.2	3442.2	2390.7	2034.0	2318.2
Peasant farms	239.7	502.4	875.3	1159.8	1910.2	2434.1	2873.9
Households	3888.0	3812.0	3968.8	4004.8	3700.3	3350.7	3156.7
Specific weight in the private ownership, %:							
Collective	55.5	48.8	49.5	40.0	29.9	26.0	27.8
Peasant farms	2.6	6.0	9.1	13.5	23.9	31.1	34.4
Households	41.9	48.2	41.3	46.5	46.2	42.8	37.8

Source: Statistic Year Book of the Republic of Moldova, 2002, p. 309

Chart 1.1 Structure of areas under crops based on farm categories



Source: *Statistical Year Book of the Republic of Moldova, 2002*

Table 1.6
Production structure based on farm categories, % of the total output

<i>Kinds of crops and goods</i>	<i>1995</i>	<i>1996</i>	<i>1997</i>	<i>1998</i>	<i>1999</i>	<i>2000</i>	<i>2001</i>
Agricultural enterprises							
Cereals and leguminous plantings	71.7	58.5	61.8	54.1	42.1	34.9	40.0
Sugar beet (for processing)	99.5	98.6	97.7	93.5	78.5	69.3	68.1
Sunflower seeds	95.1	90.2	87.6	78.0	60.6	49.5	47.3
Potatoes	1.8	1.5	2.3	0.6	0.4	2.6	2.7
Vegetables	57.5	40.4	37.3	29.0	23.1	21.1	17.1
Meat (deadweight)	43.0	37.4	34.5	27.1	20.3	11.4	6.7
Milk	37.3	29.9	19.4	15.9	11.1	7.3	6.1
Eggs	43.1	42.3	40.8	42.6	39.8	39.3	41.0
Households							
Cereals and leguminous plantings	24.7	34.0	26.8	29.7	30.8	27.9	15.5
Sugar beet (for processing)	-	-	-	-	-	-	0.6
Sunflower seeds	1.7	1.3	1.2	1.1	0.9	0.8	4.3
Potatoes	97.6	97.0	95.7	97.2	95.6	88.8	82.5
Vegetables	40.7	56.8	57.1	63.8	66.0	55.0	59.9
Meat (deadweight)	56.0	59.7	58.6	62.1	64.2	64.1	62.7
Milk	60.4	63.1	70.5	70.1	66.9	60.9	56.1
Eggs	54.2	52.0	52.3	48.3	49.8	47.8	40.8
Peasant farms							
Cereals and leguminous plantings	3.6	7.5	11.4	16.2	27.1	37.2	42.5
Sugar beet (for processing)	0.5	1.4	2.3	6.5	21.5	30.7	31.3
Sunflower seeds	3.2	8.5	11.2	20.9	38.5	49.7	48.4
Potatoes	0.6	1.5	2.0	2.2	4.0	8.6	14.8
Vegetables	1.8	2.8	5.6	7.2	10.9	23.9	23.0
Meat (deadweight)	1.0	2.9	6.9	10.8	15.5	24.5	30.6
Milk	2.3	7.0	10.1	14.0	22.0	31.8	37.8
Eggs	2.7	5.7	6.9	9.1	10.4	12.9	18.2

Source: *Statistic Year Book of the Republic of Moldova, 2002, p. 316*

Thus, we can see that the main result of the first stage in the agrarian reform is the fact that the private sector has prevailed. It includes all major legal forms of enterprises whose viability and efficiency will be established in the near future.

2. Survey Methodology

The goal of the survey is to reveal specifics and show the level of lease development in the Republic of Moldova as well as changes that have taken place in lease relations since spring 2001.

Survey tasks:

- to determine the role of lease in land consolidation;
- to examine relationships between major lease subjects, i.e. landowners and lessees in the lease process;
- to reveal major problems of agricultural land lease;
- to reveal the peasants' attitude towards agricultural land consolidation through creation of production cooperatives.

Object of the survey: to survey the physical and legal persons involved in the lease relations system in the Republic of Moldova. The total number of those surveyed was 1202 persons including 598 agricultural land owners with 345 of them being lessors and 302 – lessees, as well as 302 –mayors of the communities where the survey was held. The survey covered three climatic and geographical zones of the country - north, center and south including 32 local administrative sub-rayons and TAU Gagauzia.

Methods of data collecting:

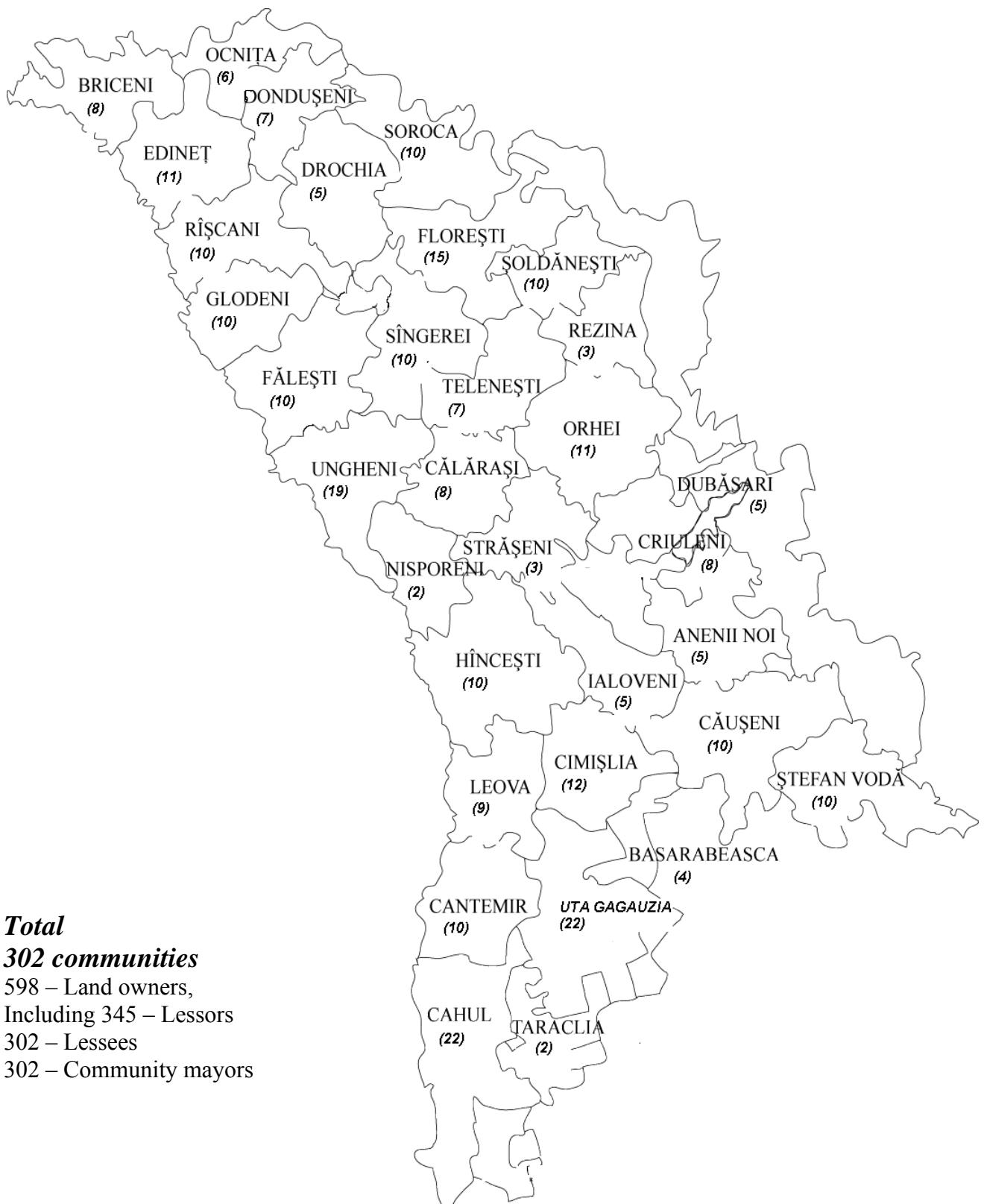
- application of statistic and mathematical methods in the determination of the range of peasant farms and agricultural enterprises included in the survey and further processing of the received data;
- obtainment of data through polling by interviewers, i.e. persons employed and specially trained for doing this work;
- use of data from annual reports of enterprises, on the results of their production and financial activity.

Survey instruments - three questionnaires were used for polling mayors, lessors (owners of agricultural land) and lessees. The CISR was used as a basis for the questionnaires to be used for polling lessees and lessors, and for the questionnaires that were used in the survey of March 2001 for identifying major changes having taken place in the lease during the previous three years.

Duration of the survey: from November – December 2003; a sociological survey was held lasting 2 weeks, from November 12 till November 27, 2003.

Monitoring – 15% of the total number of completed questionnaires was test-sampled after the end of the survey. Also, the correctness of completion of the questionnaires was checked at the moment of their reception for econometric processing.

Geography of the Survey



Total

302 communities

598 – Land owners,

Including 345 – Lessors

302 – Lessees

302 – Community mayors

3. Scale and Dynamics of Lease Relations

3.1. Structure of Land Areas in Communities

The landownership system has changed dramatically during land reform in the Republic of Moldova. Land that belonged to the state and used by collective farms was transferred for individual use.

The structure of land shares allocated to residents of communities included in this sampling is given in the following table.

Table 3.1.1
Ratio between land areas to privatization distributed in kind (ha, %)

	Land subject to privatization *, ha	Distributed in kind, ha	%
Total	664828	606371	91.2
Including:			
Arable land	569804	518638	91.0
Orchards	47130	43315	91.9
Vineyards	47894	44418	92.7

* Except for household parcels and parcels aimed for the social sphere

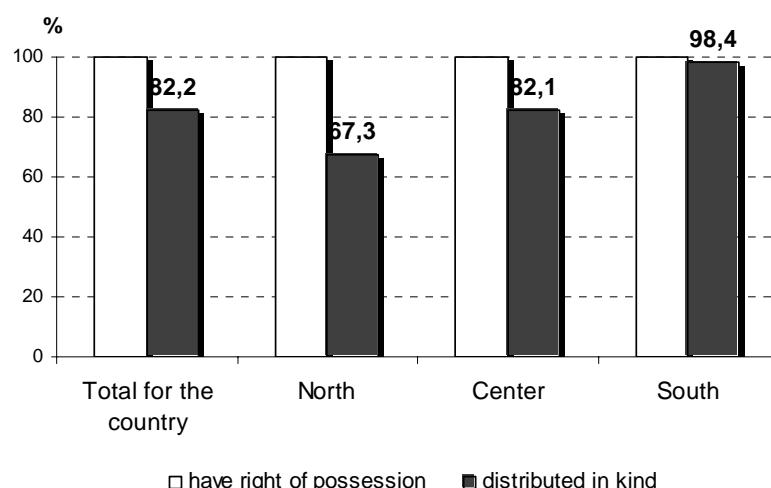
According to the data obtained from polled mayors, a majority of the land (91.2%) subject to privatization has already been allocated to the population. Another 8.8% still needs to be allocated.

Thus, it is obvious that all further land use reforms should be done with the mindset that public land privatization has been practically completed. Agricultural land in the Republic of Moldova has become private property.

3.1.1. Agricultural Land Fragmentation as a Result of Privatization

The population of the communities included in sampling as of the survey date was 1011.4 thou persons. 39.9 % (403.2 thou persons) of them were entitled to land shares. 82.2%, (331.5 persons) of those entitled to land had actually received their land shares as of the survey date. (Chart 3.1.1.a).

Chart 3.1.1.a. Land areas distributed in kind



Observance of the social fairness principle resulted in fragmentation of land into numerous individual shares.

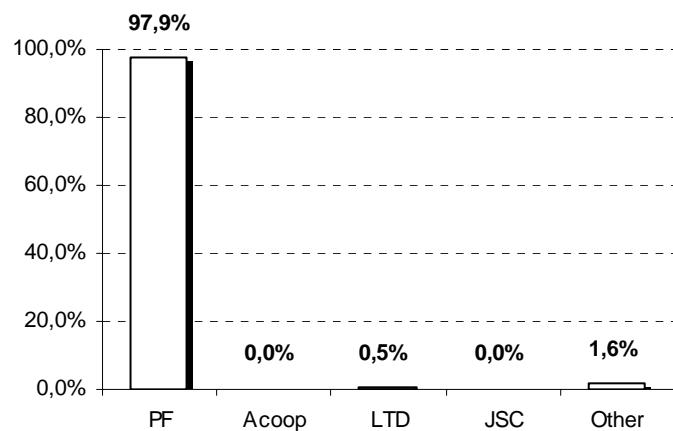
Table 3.1.1.a
Number and size of land parcels allocated in the privatization process

	Number of allocated land share in kind	Land share size, ha	Area
Total	380967	1.68	606371
Including:			
Arable land	328039	1.41	518638
Orchards	271183	0.15	43315
Vineyards	168978	0.24	44418

3.1.2. Lease as a Major Type of Land Use in Communities

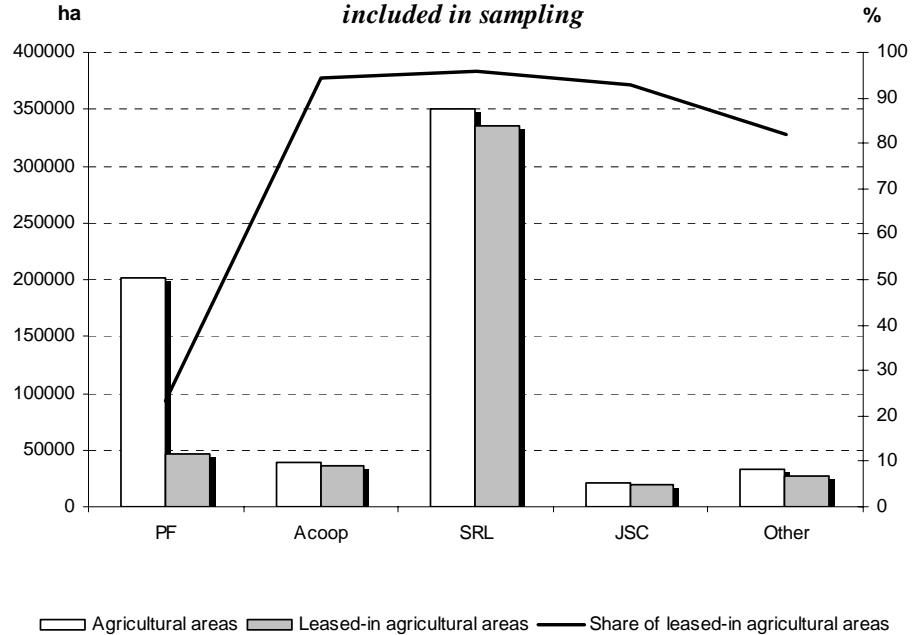
Existing farming technology requires large land areas. Today, land lease is performing the function of land consolidation.

Chart 3.1.2.a. Legal forms of the enterprises included in sampling



Enterprises of four legal forms are using land in the surveyed communities. At the same time, peasant farms prevail by the area of the farmed land (97.9%). It is also necessary to take into account that they are the major landowners and lessors. Land lease is not typical of them though they still have 23.3% of the leased-in land.

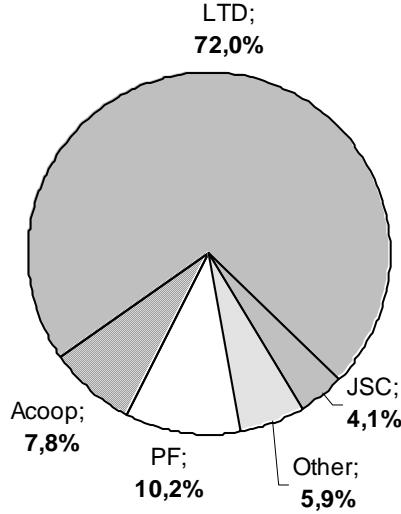
Chart 3.1.2.b. Land lease relations in the communities included in sampling



LTD, cooperatives and JSCs are major lessees, as 92.7% to 95.9% of their land is leased land.

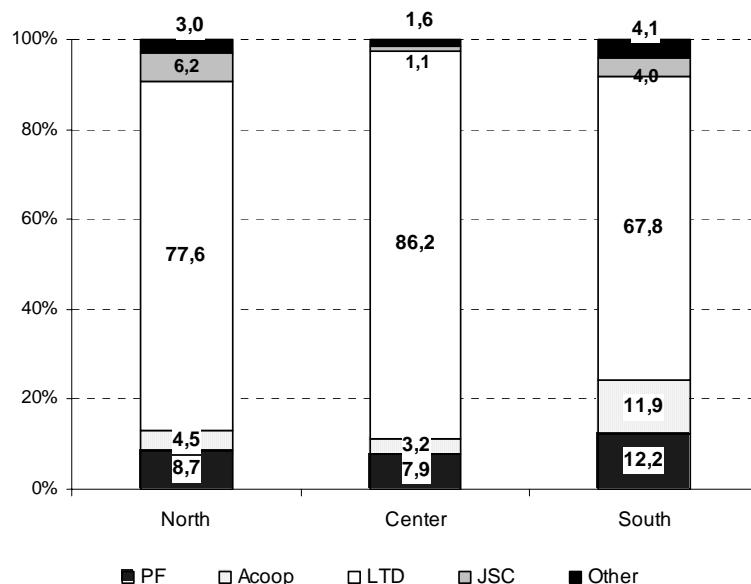
LTD is the major lessee farming 72.0% of land they lease in communities.

Chart 3.1.2.c. Leased-in agricultural areas based on legal form of enterprises



The land area leased by different legal types of enterprises depends on the geographical zones they are located in.

Chart 3.1.2.d. Geography of agricultural leased-in areas based on legal form of enterprise



In all three regions of the country LTD are major lessees. The percentage of land they lease in the central zone is equal to 86.2%, in the northern – 77.6% and in the southern – 67.8%.

The reason this type of enterprise is popular for land lease activity can be explained by its organizational form. As an association of several physical persons this economic form accumulates necessary financial and technical means that peasant farms do not have. However, JSCs are "closer" to landowners than LTD; and therefore, have a bigger financial potential, but they are still less active in the lease system than LTD.

Cooperative farms are a transformed form of the former collective farms. Land lease in this case is a new form of farming. Cooperative farms located in the south of the country are mainly involved in lease relations (11.9%).

3.2. Scale of Land Lease: Tendencies in 2001-2003

The importance of lease in the system of land relations can be determined by its share in the overall land use system. It is obvious that the importance of lease as a form of economic activity will be proportional to the share of leased versus non-leased land. The ratio between total land area owned to total leased out by the holders is shown in table 3.2.1.

Table 3.2.1
Ratio of total land owned to total leased out (%, ha):

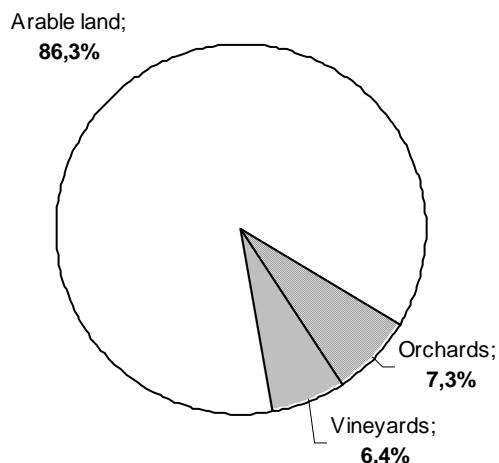
	The area of the land owned		The area of the leased out land	
	Ha	%	ha	%
Total	1312.45	100.0	666.35	50.8
<i>Including</i>				
Arable land	1136.11	100.0	575.42	50.6
Orchards	92.61	100.0	48.43	52.3
Vineyards	111.94	100.0	42.50	38.0

One can see that half (50.8%) of the total land owned by peasants is leased out. One can thus presume that the problem of consolidating the land shares received by peasants, as a result of the land reform in 1990s is partly resolved through lease.

At the same time, the size of the leased out land parcels differs considerably depending on their designation. As a result, the area of the leased out arable land is 50.6% (orchards 52.30%, and vineyards – 38.0%).

The ratio between all types of land parcels within the structure of the leased-in lands is even more indicative. Out of the total of 666.35 ha of such land, arable land constitutes 86.3% of it (orchards 7.27%, and vineyards – 6.38%).

Chart 3.2.1. Structure of leased-in agricultural areas



The lessees' enterprises involved in the system of lease relations in the Republic of Moldova are represented by 5 legal forms: limited liability companies, joint-stock companies, cooperatives, peasant farms and individual enterprises. Lessees' enterprises have different organizational, financial and technical opportunities. However, the majority of them are now "functioning" on land plots exceeding 100ha.

The general tendency for all types of farms during 2001-2003 was a transition to larger land massif farming (however, there were some exceptions). Because of this tendency, limited liability companies and peasant farms cultivate land plots of 1 to 10ha and over. It is worth mentioning that in 2003, the share of such land plots in this group of lessees increased in comparison with 2001. Peasant farms cultivate the greatest number of 11-50ha plots. Cooperatives, joint stock companies and individual enterprises are functioning on larger areas (101ha and over).

Table 3.2.2
Structure of agricultural lands depending on the legal forms of enterprises, (%)

Size of agricultural lands, ha	Legal forms of enterprises									
	LTD		Peasant farms		Cooperatives		Limited liability companies		Individual enterprises	
	2003	2001	2003	2001	2003	2001	2003	2001	2003	2001
1 – 10	1.0	-	4.1	1.6	-	-	-	-	-	-
11 – 20	0.5	0.4	6.1	5.2	-	-	-	-	-	-
21 – 50	1.0	0.8	12.2	9.8	-	-	-	-	5.6	-
51 – 100	2.0	2.0	8.2	7.3	7.2	-	-	-	20.0	-
101 – 500	36.0	32.8	49.0	53.9	21.4	33.3	33.3	-	50.0	40.0
501 – 1000	26.0	33.6	14.3	15.5	14.3	25.0	33.3	-	33.3	40.0
> 1000	33.5	30.4	6.1	6.7	57.1	41.7	33.4	100	11.1	-
Total	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0

Table 3.2.3 shows the size and share of land owned by lessees and the share of land they lease from other owners.

Table 3.2.3
Ratio between the land owned by lessees and that leased from other owners, (%)

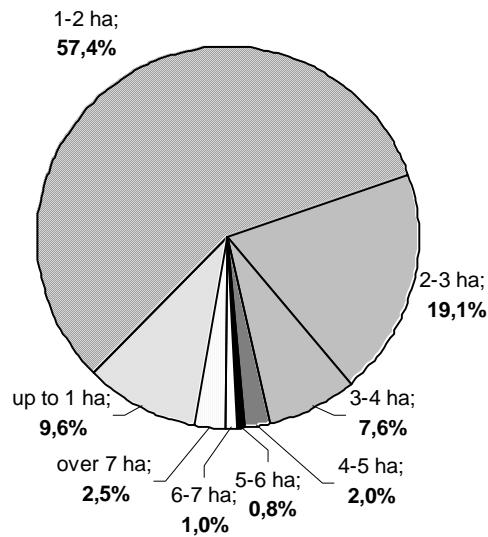
	Total of the land used		Leased land		Land owned by lessees	
	ha	ha	%	ha	%	
Total	253219.7	251669.5	99.4	1550	0.6	
Including: arable land	222216.2	221503.2	99.7	713.0	0.3	
Orchards	14715.5	14502.5	98.6	213	1.4	
Vineyards	15780.9	15663.8	99.3	117.1	0.7	

As we see, lessees "own" only 0.6% of the total land area they farm. The major part of land is leased. On average, each lessee farms 835.9ha of leased land and 5.1ha of his own.

Proceeding from this, one can make a conclusion that lessees are not yet large landowners in Moldova, though their plots are twice as big as those of ordinary peasants. It is likely that lessees have already accumulated a certain part of their own land but they still prefer to lease it rather than buy.

Structure of leased land plots depending on their size. Lease of land plots depends, to a great extent, on their size. Small land parcels (under 1ha) are farmed by their owners independently. Large plots require machinery for cultivation. Lack of machinery forces the owners of such land plots to lease them out.

Chart 3.2.2. Structure of leased-out areas based on size



The data in the table show that the most frequently leased land parcels are those of 1-2ha size – 57.4%, and 2-3ha – 19.1%. Land parcels under 1ha constitute less than 10% of the total of leased land parcels, while those of over 3ha represent 12.8%.

Thus, the land parcels most frequently involved in lease relations are of average-size. This size makes it impossible to farm such land parcels manually, while their owners have no machinery. Merging them into one large parcel create conditions for lessors, which are necessary for effective use.

3.3. Who Leases Land: Legal Form and Deadlines for Lessees' Enterprise Registration

It is obvious that as more land parcels are included in the lease relations system, the utilization will increase. On the other hand, the level of efficient use of leased lands depends on the legal forms of lessees' enterprises.

The structure of legal forms of lessees' enterprises is reflected in table 3.3.1:

Table 3.3.1
Legal forms of enterprises involved in the lease relations system (%)

	2001		2003	
	<i>Lessors</i>	<i>Lessees</i>	<i>Lessors</i>	<i>Lessees</i>
LTD	55.8	52.9	71.6	66,2
Peasant farms	38.9	41.9	14.8	16,2
Cooperatives	3.1	2.6	5.5	4,6
Joint stock companies	0.7	0.4	1.7	1,0
Individual enterprises	1.5	2.2		
Others			5.2	6.0
No response			1.2	6.0
Total	100.0	100.0	100.0	100.0

The hierarchical structure of lessees' enterprise legal forms is similar to that of 2001, which was subsequently preserved in 2003 with the prevailing of LTD. This form of enterprises lease is more than 2/3 (62.2%³ to 71.6%⁴) of land. Peasant farms comprise the second largest group according to the leased land size, i.e. 14.8%³ - 16.2%⁴. The third, fourth and fifth largest groups are agricultural cooperatives, joint stock companies and individual enterprises, respectively.

It is apparent that the share of corporate forms of lessees' enterprises was increasing in 2003. At the same time, the number of individual enterprises reduced considerably. Thus, the number of physical persons, i.e. individual enterprises registered as lessees in 2003 was very small. Additionally, the number of lessees' enterprises having the status of legal persons (except for peasant farms) increased considerably.

Period of lessees' enterprises activity. An increase or decrease in the number of lessees during the last three years is a very important indicator reflecting the level of interest in land lease.

Table 3.3.2

Structure of lessors based on the date of enterprise registration

The year of the enterprise registration	2001		2003	
	Number of enterprises	%	Number of enterprises	%
1990	1	0,7	2	0,2
1992	2	0,7	2	0,4
1993	4	0,0	0	0,9
1994	2	1,3	4	0,4
1995	5	0,7	2	1,1
1996	12	1,3	4	2,6
1997	14	5,0	15	3,0
1998	31	5,3	16	6,7
1999	240	32,1	97	51,7
2000	144	22,5	68	31,0
2001	6	8,6	26	1,3
2002		8,3	25	-
2003		5,6	17	-
NR	3	7,9	24	0,6
Total	464	100,0	302	100,0

³ Lessors estimations.

⁴ Lessees estimations.

According to the table, the years of land reform (1998-2000) as well as the subsequent two years show the largest number of enterprises involved in lease relations. In 2003, the number of registered lessees' enterprises was equal to 76.8%.

The number of registered lessees' enterprises during the period of 2001-2003 was 30.5%. Hence their annual increase was about 8 %.

Conclusion: one can see that economic entities in the agrarian sphere display a stable interest in the lease-based form of land relations.

3.4. Social and Demographic Characteristics of Lease Subjects

The subjects of lease relations in the Republic of Moldova can be divided into the following social and demographic categories:

Educational level of subjects of lease relations. As a result of the market economy, lease relations depend, to a great extent, on the social characteristics of lessors and lessees. For dynamic activity in market conditions, these individuals need to be physically and socially prepared.

Educational status of lessees and lessors is reflected in table 3.4.1:

Table 3.4.1
Educational level of the owners and lessees

<i>Education</i>	<i>2003</i>		<i>2001</i>
	<i>Owners</i>	<i>Lessees</i>	<i>Lessees</i>
No education		-	0, 6
Secondary school	37,3	2,3	3, 7
Agricultural vocational school	25,8	12,1	18, 1
Non-agricultural vocational school	16,4	3,7	4, 1
Agricultural university	12,1	73,8	63, 6
Non-agricultural university	7,9	8,1	9, 9
No response	0,5	-	-
Total	100,0	100,0	100,0

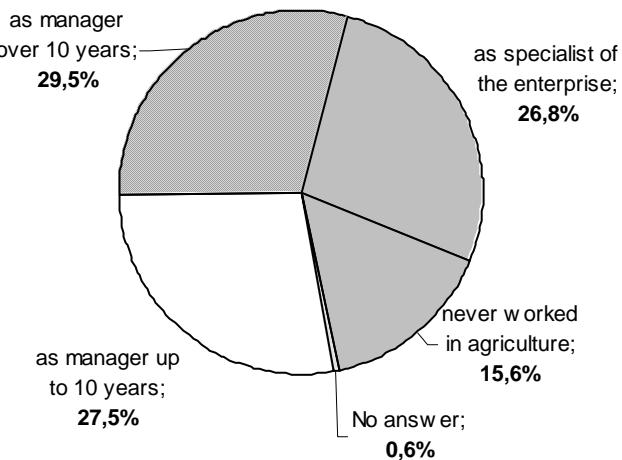
The survey data show that lessors having general secondary education (37.3%) are in the majority. The same indicator with lessees is 2.3%. It is interesting to note that in comparison with 2001, the number of lessees having secondary education went down from 3.7% to 2.3%. Additionally, the 2003 survey did not register any lessees without education.

It is important to note that the majority of lessees (73.8%) have a university education mainly in the field of agriculture versus 12.1% of lessors. The lower level of special vocational education with lessors shows that some landowners lease out their land not only due to financial reasons, but also due to their lack of special knowledge and means needed for effective economic activity.

Lessees' experience in administrative activity. Successful activity of lessees requires not only special knowledge in the agricultural field, but also knowledge and skills in the field of management.

The data on the lessees' general administrative experience are reflected in chart 3.4.1:

Chart 3.4.1. Time worked by agricultural enterprises managers



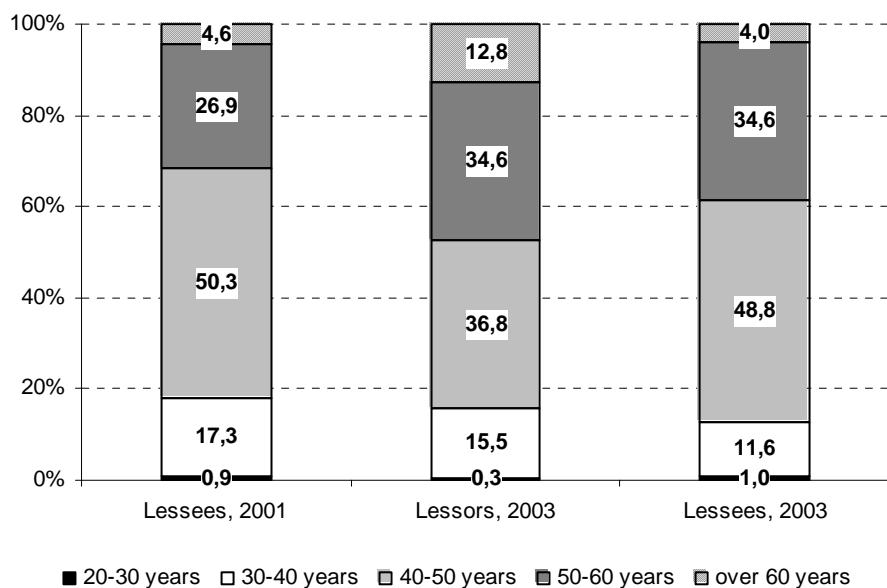
Over half of lessees had sufficient experience as agricultural enterprise managers before privatization. 27.5% have experience of less than 10 years and 29.5% over 10 years. One can presume that half of the managers of agricultural lessees' enterprises during the post-privatization period are either former heads of kolkhozes and sovkhozes, or middle level managers (team leaders). The other part of lessees (26.8%) is comprised of specialists with high qualifications (livestock specialists, agriculturists, economists, etc). A proportion of lessees (15.6%) come from other fields of activity, such as education, medicine and management.

About 14% of lessees are young people who were not engaged in the economic or administrative activity at the moment of privatization.

Conclusion: At present, enterprise managers are rather skilled people with considerable length of service. At the same time, it is important that every 8th lessee is a young agricultural businessman.

Age characteristics of subjects of lease relations. The age characteristics of lease subjects vary considerably. Both lessees and lessors are representative of all age groups starting with 20-30. Also, lessors are most commonly of a senior age group because landowners are mainly representative of the pension age unable to independently farm their land.

Chart 3.4.2. Structure of lessors and lessees according to their age group



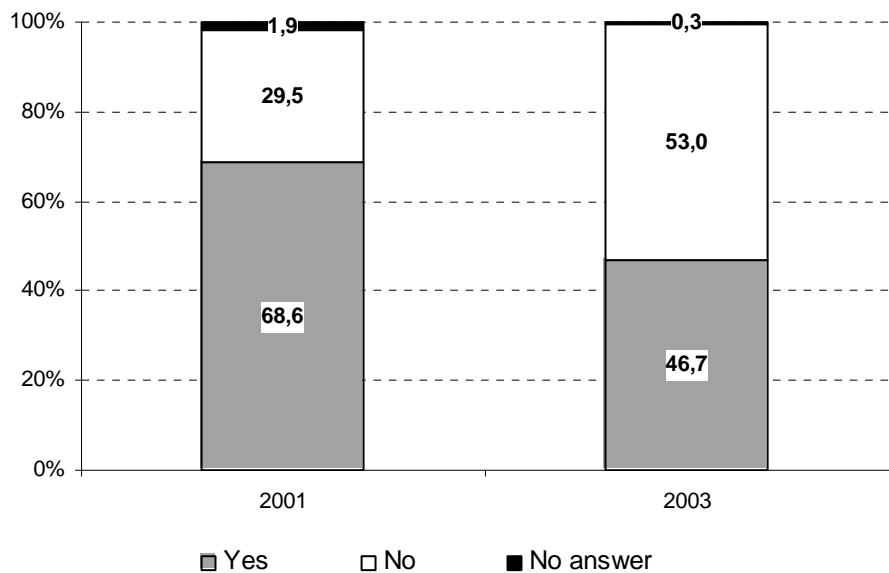
There are obvious differences between the lease subjects, which are determined by the status of lessors or lessees.

The greatest difference can be found between the most active age group of 41 – 50 and least active age group of 61 and over. As it follows from the table, the share of those between 41 and 50 in the lessees' group represents 48.8%, which is 12.0% higher than in the lessors' group. In lessors' group, on the contrary, the share of those who are 61 and older is three times as high as in lessees' group (12.8% and 4.0% respectively). Therefore, leasing is an area of activity for the active age groups, and is a way of receiving income for elderly lessors.

3.5. Participation of Lessors and Their Family Members in Lessees' Enterprises

Lease relations in the Republic of Moldova can be characterized by one remarkable feature: *almost half of lessors work for the lessees*. This peculiarity, in fact, contradicts the land lease principle. However, the existing situation reflects specific conditions of land use in the country. Despite the small sizes of land parcels, many owners, for different reasons, are unable to do farming independently. On the other hand, with a country wide sharp reduction in machinery, lessees' enterprises need significant labor resources. Besides, lease payments do not cover the necessary costs of living either for the lessor or for his family. Therefore, by leasing his land he has to work in the lessee' enterprise as a hired worker. The share of lessors working at lessees' enterprises is reflected in chart 3.5.1:

Chart 3.5.1. Lessors working at lessees' agricultural enterprises

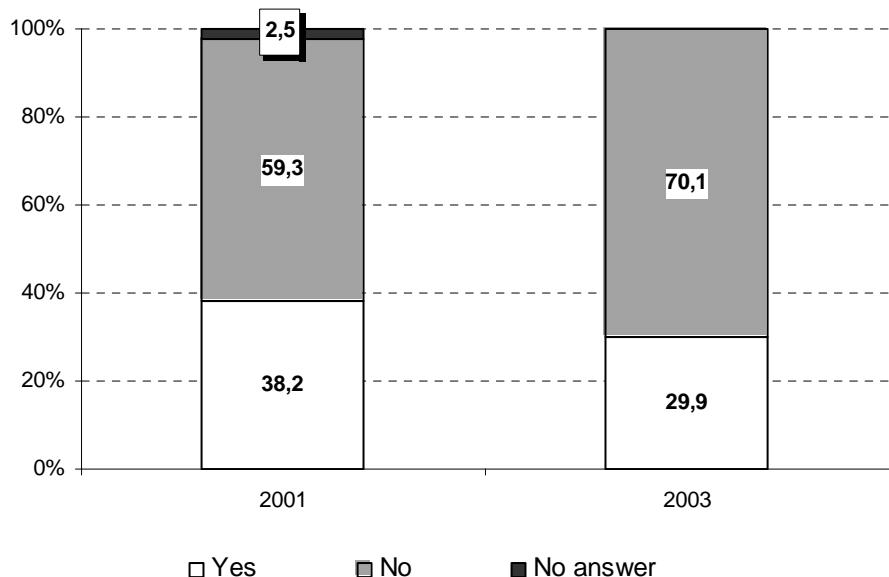


As we see, in 2001 more than half of lessors worked for their lessees, i.e. 68.6%. In 2003, the number of such lessors was less than half of the total number – 46.7%. It is possible that this reduction is due to the mass departure of peasants abroad to make their living.

It is necessary to take into account that land lease not only provides some, though insufficient, income to land parcel owners, but also creates jobs, which are extremely scarce in the rural areas. Taking into account the surplus of hands in the rural areas, this circumstance should be treated as a positive aspect of land lease.

Not only lessors themselves, but also every third member of their families is working for the lessees' enterprises (chart 3.5.2).

Chart 3.5.2. Share of lessors' family members working for lessees' enterprises



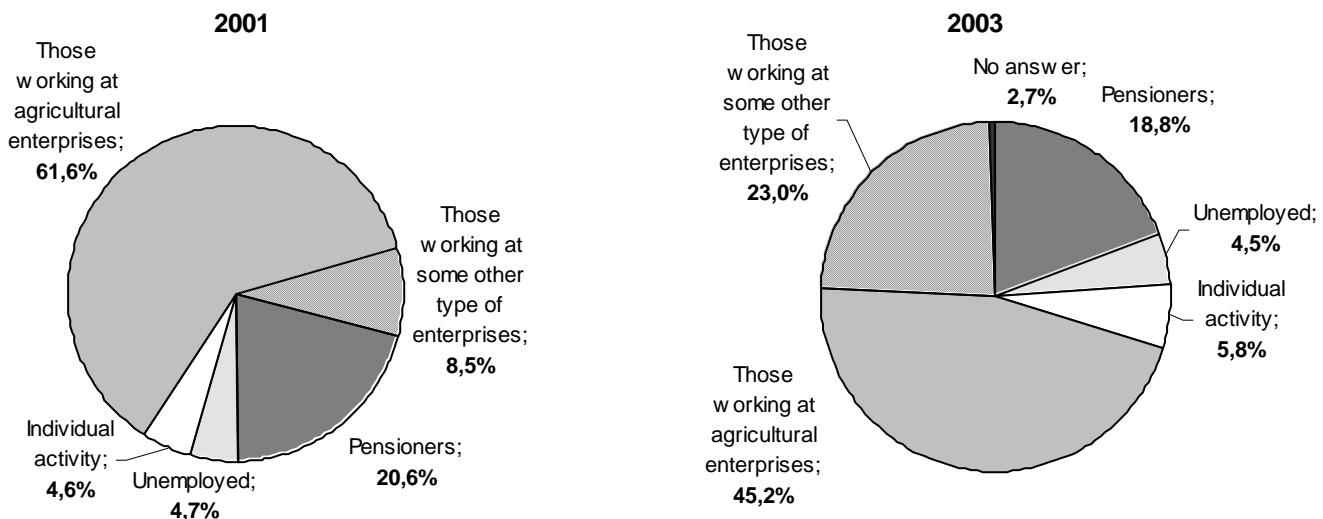
Thus, year after year, lease relations in Moldova are transforming into classical ones. After 2001, the share of lessors who are not working on their leased-out land has increased. In both groups, i.e. lessors and their family members, the share of those working at lessees' enterprises reduced considerably – in lessors' group almost by 20%, in the group of their family members – approximately by 10%.

The reason for such a reduction is not yet quite clear. Should the reason be arrival of new machinery at the leased land, the situation is likely to result in the growth of unemployment in rural areas. However, there could be another reason. Lessors generally leave villages in search of work in urban areas of the country and in other countries. Their land is cultivated by lessees and landless hired workers, while lessors simply receive lease payment.

3.6. Social Status of Lessors

The social status of lessors is very much connected with their age. Some status characteristics of lessors remain practically unchanged during the last three years while others, on the contrary, have changed dramatically.

Chart 3.6.1. Structure of lessors based on the type of activity



Some landowners indicated their status as "unemployed". Their share in the lessors' group remained unchanged - 4.5% in 2003 and 4.7% - in 2001. Their major source of sustenance is lease income. However, some changes can be found in other groups. The share of lessors working individually increased from 4.6% in 2001 to 5.8% in 2003; the share of pensioners went down from 20.6% to 18.8%. Obviously, there is observed a natural rejuvenation process in the groups of landowners including lessors. Besides, as it has already been noted earlier, the share of lessors working at lessees' enterprises decreased from 68.6% in 2001 to 46.7% in 2003.

It is important to note that the number of lessors working at other types of enterprises increased from 8.5% in 2001 to 23.0% in 2003, i.e. practically every fourth landowner-lessor has changed their type of activity.

3.7. Reasons for Land Lease

One of the main reasons forcing the owners of land to lease it is their inability to farm large plots generally due to a lack of compact and inexpensive machinery that could be used on small land parcels.

Table 3.7.1

Reasons determining land lease (%)

	2001	2003
Health, age	20.1	27.0
Lack of machinery to farm the land	62.4	64.9
Lack of necessary knowledge	3.3	10.4
Difficulties in sale of goods	5.1	16.2
I have another work place	-	12.8
It is not profitable	0.6	
Other	9.1	-
Total	100	100*

*The number exceeds 100% because respondents were free to choose more than one answer

During the period of 2001-2003 the problem did not abate. In 2001, 62.4% of lessors indicated lack of machinery as a reason for leasing out their land. In 2003, their share was 64.9%. Age also remains as one of the significant reasons for leasing one's land. Every fourth respondent indicated age as a factor!

Judging by respondents' answers, one can conclude that the need for land lease as a form of land use has increased. It is important that 12.8% of respondents had a possibility to reorient their type of activity in 2003. It is possible that such reorientation can later on result in the increased number of land transactions.

Reasons for land lease depending on landowners' social statuses. In 2003 like in 2001, all social groups indicated health condition and lack of machinery for farming their land as the main reasons for leasing out their land.

Table 3.7.2

Reasons for land lease based on type of activity (%)

Activity	Reasons for land lease									
	Health		Lack of machinery		Lack of knowledge		Difficulties in selling goods		Other	
	2001	2003	2001	2003	2001	2003	2001	2003	2001	2003
Pensioners	70,9	84,1	25,5	14,3	0,4	-	1,1	1,6	2,1	-
Unemployed	19,4	33,3	72,6	60,0	1,6	6,7	6,1	-	0,3	-
Individual activity	12,7	27,8	60,0	61,1	9,1	-	-	-	18,2	1,1
Agricultural employees	7,3	12,7	73,2	66,2	2,5	2,8	4,6	6,3	12,4	1,3
Employees at other type of enterprises	10,8	9,9	64,0	62,0	10,8	4,2	5,4	-	9,0	23,9
Total	100	100	100	100	100	100	100	100	100	100

The state of health as a reason for land lease has become even more acute - 84.1% in 2003 versus 70.9% in 2001. Lack of needed agricultural machinery as a reason for land lease in different social groups varies between 60.0% and 62.2% (except for the group of pensioners).

Age as a land lease factor. The reasons for land lease differ considerably depending on age. The point is that some changes in social status such as profession, sphere of activity, etc. are connected with age.

Table 3.7.3

Reasons for land lease depending on age (%)

Groups of age	Reasons determining land lease									
	Health		Lack of machinery		Lack of knowledge		Difficulties in sale of goods		Other	
	2001	2003	2001	2003	2001	2003	2001	2003	2001	2003
20 – 30	3.2	-	73.0	-	6.3	-	6.3	-	11.2	-
31 – 40	4.3	8.3	69.3	72.9	4.6	6.3	9.3	2.1	12.5	10.4
41 – 50	8.3	12.6	72.1	64.9	4.0	3.6	5.1	3.6	10.5	13.5
51 – 60	20.5	37.2	65.7	46.9	2.3	0.9	4.0	3.5	7.5	11.5
61 and over	69.3	71.2	25.8	20.9	0.4	-	1.2	2.3	3.3	4.7

One can clearly single out the group of lessors under 30 who indicated that the principal reason for leasing out their land was that they have some other work. It is obvious that the growing number of landowners in this group will result either in further expansion of lease or in further sale of land parcels.

"Lack of technical means" remains a major factor determining land lease in all age groups which should be understood both as lack of agricultural machinery and lack of technologies, seeds and so on. From 46.9% to 72.9% of respondents specified this reason (the age groups being 51 - 60 and 31 – 40 respectively). There are no essential changes in the situation as compared with 2001, which shows a low growth rate of agricultural material and technical basis.

4. Lease Agreement: Reliability, Terms, Payment

4.1. Legal Registration of Land Lease Agreements

The presence of an agreement turns the simple transfer of ownership right over farmland from one person, i.e. landowner, to another into a legally registered transaction called a *lease*. As opposed to this "lawful" form of land transaction, there is another form, i.e. transfer of land to a relative or a neighbor, which is outside the lease relations system. However, it is land lease *per se* and it is widely used in Moldovan villages.

Table 4.1.1 reflects, to a certain extent, the correlation between formal lease and its "shadow" analogue.

Table 4.1.1

Presence of land lease agreements (%)

	Lessors		Lessees	
	2001	2003	2001	2003
Yes	91.7	93.3	92.5	96.7
No	8.1	6.1	7.3	3.0

No answer	0.2	0.6	0.2	0.3
Total	100.0	100.0	100.0	100.0

According to the estimations provided by lessors and lessees, the major part of land lease is registered in form of agreements. In 2003, lessors indicated presence of agreements on the level of 96.7%, while lessees' estimation was 93.3%. In comparison with 2001, both subjects of lease relations note a growth in the number of agreements, which also means a higher level of legally registered leased land to be farmed by other persons.

Presence of agreements depending on legal forms of lessees' enterprises. According to the survey data, in 2003, lessees' enterprises were responsible for the increase in the number of agreements signed with landowners. In the LLC group, this indicator grew from 97.9% in 2001 to 99.5% in 2003; in the group of individual enterprises – from 90% in 2001 to 100.0% in 2003; in the group of joint-stock companies this indicator was equal to 100.0% like in 2001.

Table 4.1.2

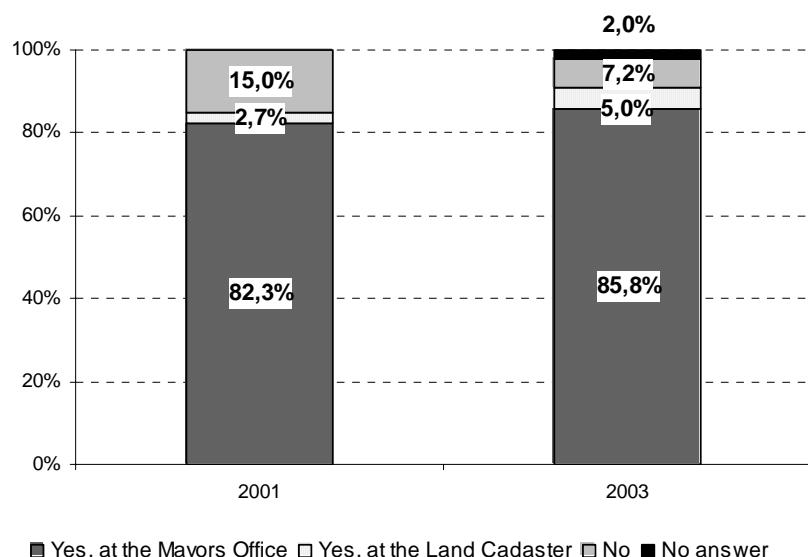
Presence of agricultural land lease agreements depending on legal forms of lessees' enterprises (%)

LTD		PF		ACoop		JSC		Individual enterprise		Total		
2001	2003	2001	2003	2001	2003	2001	2003	2001	2003	2001	2003	
Yes	97.9	99.5	86.5	87.5	91.7	85.7	100.0	100.0	90.0	100.0	98.8	96.8
No	2.1	0.5	13.5	12.5	8.3	14.3	-	-	10.0	-	1.2	3.2
	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0

At the same time, the share of agreement-based land leases in agricultural cooperatives decreased from 91.7% to 85.7%. The reason for this growth of "non-formal relations" between lessors and lessees requires additional examination.

Registration of land lease agreements. Registration of land lease agreements is an illustrative indicator of stronger lease relations and their functioning on the formalized institutional level.

Figura 4.1.1. Have you registered the lease agreement?



The survey data show that in 2003 the process of formalization of land lease relations became more mature and conformed more with the law. Thus, the number of registered agreements has grown for the last three years by 5.8% as a whole. At the same time, the number of unregistered agreements went down from 15.0% in 2001 to 7.2% in 2003.

Contractual relations validity term. The land lease agreement term is a result of mutual consent between two parties, i.e. lessors and lessees in the situation of developed market relations existing in the land use system. Efficiency of lease relations and their stability is reflected in the terms of concluded agreements. Apparently, the longer the lease relations are, the higher is the degree of lessors' trust in lessees. Therefore, there are more grounds for capital investments and rational use of land by the latter.

Table 4.1.4

Land lease agreement term (%)

Term	2001		2003	
	Lessors	Lessees	Lessors	Lessees
1 year	12. 5	13. 0	8.1	5.6
2 years	1. 4	2. 8	1.2	1.3
3 years	72. 3	72. 1	73.3	80.8
4 years	-	0. 2	00.0	
5 years	11. 4	10. 2	7.5	6.6
6 years	-	0. 2	0.6	0.3
7 years	-	-	2.0	0.7
9 years			!	
10 years	1. 0	1. 3	1.7	1.0
11 years	-	-	0.3	0.3
15 years	0. 3	-	0.6	1.0
25 years	0. 2	0. 2	0.9	0.3
29 years	-	-	0.3	0.3
No answer	-	-	3.5	-
Total	100.0	100.0	100.0	100.0

As we see from the data in the table, the major part of land lease agreements is 3-5 years long. Estimations by both parties – lease subjects are those of mutual trust and consequently we can examine the estimations given by one of them. Let us address lessees' estimations.

Existing lease terms do not quite satisfy lessees as 3-5 years is hardly enough for arranging long-term land use whereby stable and long-term income is ensured.

It is possible to note insignificant changes in the total of *long-term* land lease agreements in 2003 versus 2001. At the same time, the tendency for longer lease agreements obviously demonstrates stronger mutual trust of lease subjects.

Table 4.1.5
Land lease terms depending on legal forms of lessees' enterprises (%)

Lessee's enterprise form	Lease term (years)												Total	
	1	2	3	5	6	7	9	10	11	15	25	29		
LTD	2003	5.5	1.0	80.5	5.5	0.5	1.0	1.0	1.5	0.5	0.5	2.0	0.5	100
	2001	6.8	0.9	79.6	10.8	-	-	-	1.4	-	0.5	-	-	100
PF	2003	6.1	4.1	77.6	10.2	-	-	-	-	-	2.0	-	-	100
	2001	19.5	1.9	64.4	13.0	-	-	-	0.6	-	-	0.6	-	100
ACoop	2003	7.1	-	71.4	14.3	-	-	-	-	7.1	-	-	-	100
	2001	15.0	2.3	68.2	13.6	-	-	-	-	7.1	-	-	-	100
JSC	2003	-	-	100.0	-	-	-	-	-	-	-	-	-	100
	2001	-	-	100.0	-	-	-	-	-	-	-	-	-	100
Individual enterprise	2003	-	-	94.4	5.6	-	-	-	-	-	-	-	-	100
	2001	22.7	4.5	72.8	-	-	-	-	-	-	-	-	-	100
Total	2003	5.3	1.4	80.7	6.7	0.4	0.7	0.7	1.1	0.1	1.1	1.4	0.4	100

We see that the lessee enterprise's legal form is not a major factor determining the land lease agreement term. Agreement terms of the overwhelming part of lessees' enterprises are 3-5 years. The prevalence of 3 to 5-year terms of lease agreements can be partly explained by the structure of leased land as long as 81.5% of it is arable land. In this situation, lessees are interested in income and quick return of the invested money, which they get every year, when money is invested in cereal crops.

Optimal land lease terms. The poll of lessees shows that they are interested in longer lease terms. This interest can be explained by the fact that long term lease makes it possible to invest more money and to receive more income.

Table 4.1.6
Optimal farmland lease term (%)

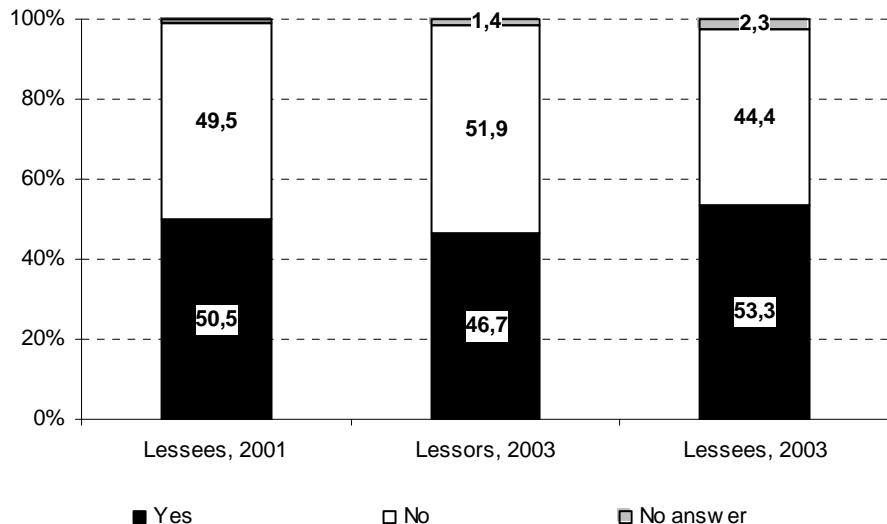
Optimal terms	1	2	3	5	7	10	15	20	25	30	99	No answer	Total
2001	4,1	0,4	15,9	34,1	0,7	30,5	6,1	4,3	2,6	0,4	0,9	-	100,0
2003	2,3	1,0	21,5	21,2	0,3	23,8	9,6	4,6	11,3	3,3	0,4	0,7	100,0

According to the 2003 survey data, the most preferable land lease term was determined as 10 years, similar to 2001. Practically every fourth lessee, i.e. 23.8% considers this term optimal. This could be due to the prevailing use of leased land for the cultivation of cereals as term is inappropriate for orchards and vineyards. The terms of 3 years (21.5%) and 5 years (21.2%) are second and third by preference. The number of people preferring the period of 25 years has grown (11.3%) as well as of those preferring 15 years (9.6%). 3.3% of lessees would rather sign agreements for the term of 30 years (versus 0.4% in 2001). The general increase of desirable optimal terms (among lessees) is an indicator of their long-term intentions to develop business. These long-term intentions evidently indicate availability of necessary capital for unfolding activity on the leased lands.

As to the lessees preferring the lease term of 1-2 years, their share is insignificant (3.3% in 2003), which is still going down.

Negotiation of property share lease agreements. The issue of lease of the tangible assets that were or had to be distributed to collective farm (kolkhoz and sovkhoz) members still remains rather problematic. The major components failed to be physically allocated and distributed among all collective farm members; and therefore, remained the property of one or several persons.

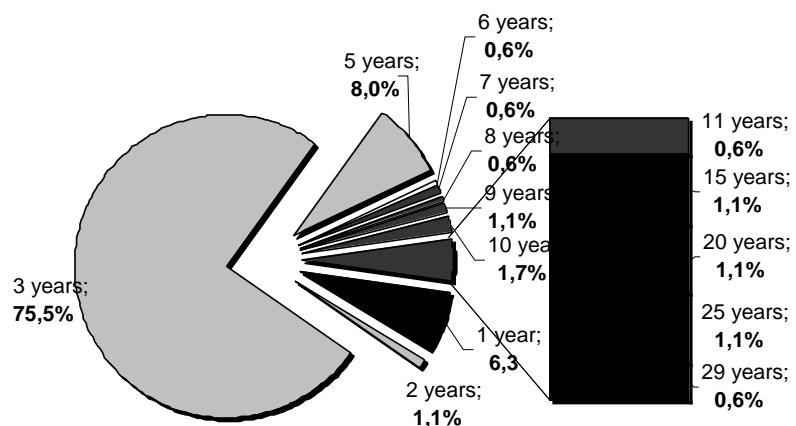
Chart 4.1.2. Do you have a property share lease agreements?



It is a noteworthy fact that *less than half of lessor-respondents point out the presence of property share lease agreements, while the major part of them mention their absence*. In 2001-2003, the situation had not changed significantly. In 2001, 49.5% of respondents mentioned absence of property (machinery) lease agreements, while in 2003, the number of such respondents was 51.9%. Thus, three years later the lease agreement problem, as well as the issue of lease payment, apparently, remains unresolved for half of the respondents.

The property share lease agreement terms practically do not differ from the land lease ones. We might assume that either single or identical agreements for using both land and property shares are actually concluded.

Chart 4.1.3. Property share lease term



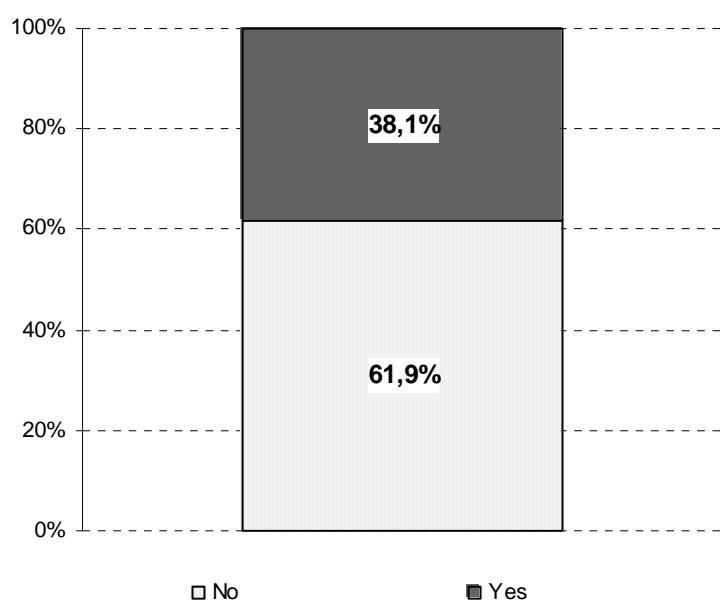
For the most part, both property and land lease agreements are concluded for the term of up to three years - 82.9%, from three to five years - 8.0%, from six to ten years - 4.6% and from ten years and over - 4.6%.

The predominance of short-term property lease agreements can be explained by limited working life of the property share components (tractors, combine harvesters, seeders and so on). This type of lease will apparently end in the nearest future since the equipment will be written off by the end of its working life. The latter will be replaced by the classical lease of specific property items rather than its shares.

4.2. Problems Related to Early Termination of Land Lease Agreements

Stability of the lease relations system can be determined judging by the number of terminated lease agreements. It is obvious that, on the one hand, variability in the lease relations system is a negative factor because it results in the loss of resources. On the other hand, it is desirable because it helps improve the lease system and reflects a landowners' free will.

Chart 4.2.1. Share of lessors having terminated agreements with lessees



The existing level of variability in the sphere of lease relations is too high. During the last 2 years, it covered 38.1% of lessees. At the same time, 61.9% of lessees did not terminate their agreements.

Major reasons for lease agreements termination by lessors. In 2003 like in 2001, the major reason for termination of agreements (in the opinion of lessees!) was the lessors' desire to farm their land independently.

Table 4.2.1
Major reasons for lease agreements termination by lessors (in the opinion of lessees), %

	2001	2003
Those who separated from the group and farm their land by themselves	75.7	62.6
Those who sold their land	4.5	6.1
Those who did not pay for lease	1.0	-

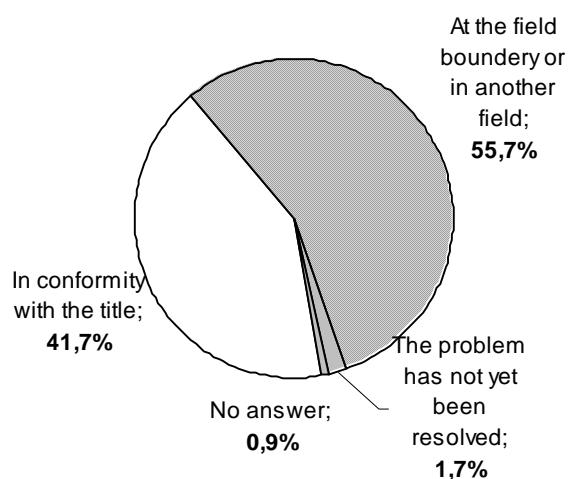
Low lease payment	9.1	12.2
Unpaid taxes	0.6	-
Those who left for another leader	9.1	10.4
Those who are dissatisfied with agreements	-	8.7
Total	100.0	100.0

However, in 2003, the percentage of people having indicated this reason decreased essentially going down from 75.7% in 2001 to 62.6% in 2003. We must take into account here that these are estimations given by lessees and not by landowners. The latter may have other weighty reasons for terminating agreements such as sale of their land (6.1% in 2003) or joining another "leader" – 10.4%.

The issue of allocation of land parcels to the lessors having terminated lease agreements. In most cases, termination of agreements results in the need to allocate land parcels to the landowners having terminated their lease agreements. In this case, difficulties may arise due to the fact that exclusion of a parcel from the leased land area can affect the leased land use system formed throughout several years.

The ways this problem is resolved are described below.

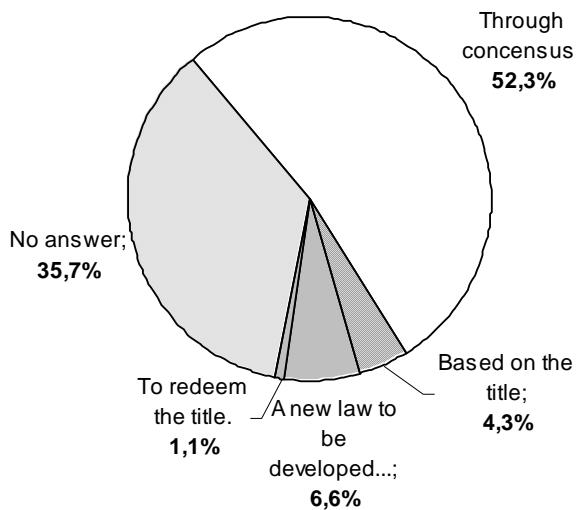
Chart 4.2.2. Reallocation of land parcels to lessors having terminated their agreement



As we see, two methods are mainly used in order to resolve the situation:

- 55.7% of lessors are allocated land in other places;
- 41.7% of lessors are allocated the same parcel belonging to the owner based on the title.

Chart 4.2.3. Proposals for reallocation of land parcels



We can see from table 4.3.4 that majority of respondents (52.3%) think that the given problem should be resolved based on consensus of the parties.

4.3. Land Lease Payment Form

Land lease payment in Moldova exists in two forms: a) fixed and b) as a share of the received income. Fixed payment is practiced twice as often as the income share.

Table 4.3.1
Correlation of different forms of lease payments in the Republic of Moldova (%)

	2001		2003	
	Lessees	Lessors	Lessees	Lessors
Fixed payment	57. 9	59. 3	60.9	56.8
As %	37. 5	34. 5	32.5	32.8
Mixed payment	4. 6	6. 2	4.6	6.7
No response			0.2	3.7
	100.0	100.0	100.0	100.0

As long as it is lessees who determine the payment form according to the existing practice, it is obvious that this form is the one that they prefer most. Although, both subjects of lease relations evaluate fixed payment as 56.8% to 60.9%, the share of percentage payments is still high – from 32.8% to 32.5%. The difference in the estimations provided by the subjects of lease relations does not exceed the allowable error margin determined by the chance and system factors.

The mixed form occupies an insignificant part of 4%-7%.

The most widespread payment forms have both positive and negative aspects. The fixed payment form ensures a stable income (and salary payment expense in lessee's case) while receiving a payment as percentage of the income means risk and income division by both subjects of lease. Besides, payment in the form of income percentage demands a high degree of mutual trust. Otherwise, numerous conflict situations are possible.

Nature of land lease payment. Lease payment consists of cash, in-kind and mixed (cash and in-kind) components. However, the in-kind payment form is dominating presently in the Republic of Moldova: from 82.0% to 83.8% according to the lease subjects' estimations. The cash form did not exceed 4.6% in 2003, which is obviously insufficient though it was twice as high as the percentage in 2001.

Table 4.3.2

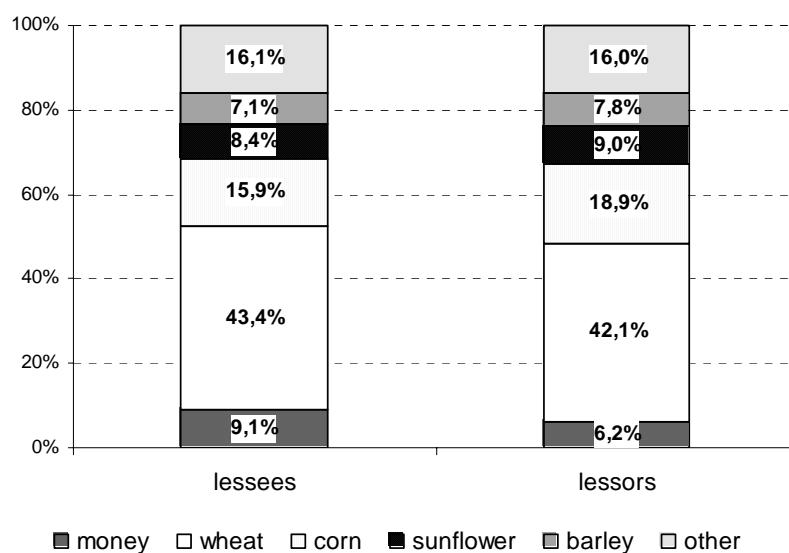
Lease payment form (%)			
2001		2003	
	Lessors	Lessees	Lessors
Cash	1.9	1.8	4.6
In-kind	82.5	86.5	82.0
Mixed	15.6	11.7	9.9
No response	-	-	3.5
Total	100.0	100.0	100.0

The reason for a poorly developed cash lease payment form is, on the one hand, underdeveloped pecuniary relations in the agrarian sector and, on the other hand, peasants' need in the in-kind payment (grain, grapes, fruit, etc.) which can be practically fully consumed by lessors' farms.

In terms of market relations development in rural areas, lease payment should be done completely in cash form in future. This will equalize lessors and lessees in their contractual relations. Some people think that the current mixed form is the most suitable both for lessors and lessees. It relieves one of the parties from the need to sell a part of manufactured goods (it is a very big problem in the present situation), while relieving the other one (peasant) from the need to buy these goods in the situation when rural residents lack cash.

Lease payment (structure and amount). Land lease payment in Moldova is in cash and in kind. The per-share structure of payment for agricultural land lease is showed in chart 4.3.1:

Chart 4.3.1. Structure of lease payment for one land share



According to the chart, in 2003 the main form of payment for land lease was in wheat (from 42.1% to 43.4%). The lessees stated that each owner-lessor received an average of 313.8 kg of wheat, while the owners-lessees indicated the amount of 298.8 kg.

Table 4.3.3

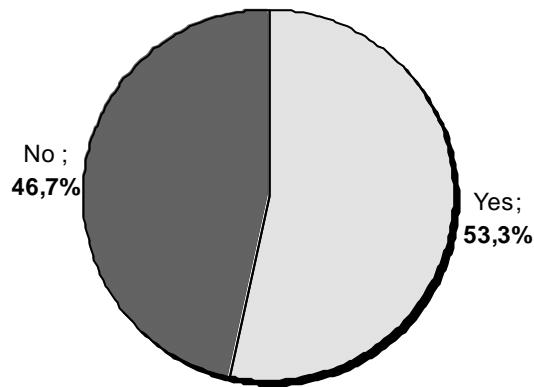
Lease payment for one land share

Payment form	Lessees		Lessors	
	Nr. of lessees	Average	Nr. of lessees	Average
Money, lei	38	642.8	36	501.3
Wheat, kg	274	313.8	307	298.8
Corn, kg	175	286.4	202	319.2
Barley, kg	98	109.5	115	109.3
Sunflower, kg	271	82.4	306	87.8
Other, lei	167	257.0	182	259.5

The evaluations of the lessors and the lessees do not differ substantially. In some cases they practically correspond, which proves a high truthfulness of the obtained data.

Property share lease payment. **Property share lease payment.** At the present moment, the issue of the property share lease payment can be regarded as half solved: little over half of lessees have signed lease agreements and little less than half of lessees pay the fee for use of the property share.

Figura 4.3.2. Have you signed a property share lease agreement?



Property share lease payment does not represent an important source of income for the lessor, in most of cases, the property share lease is not paid at all, and even paid – the payment is diminished.

Chart 4.3.3. Payment for 1000-lei property lease

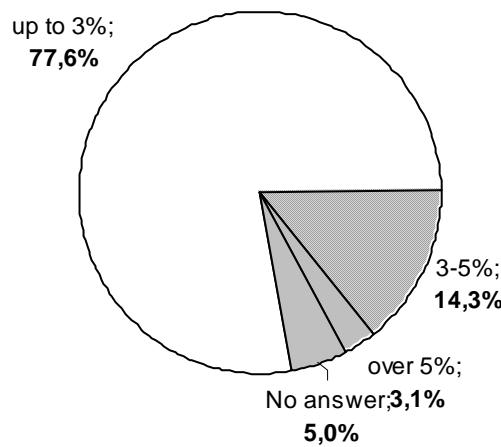


Chart 4.3.3 shows this fact – payment for 1000 lei property lease, in most cases (77.6%), represent only 3% of this amount.

4.4. Implementation of Agreement Provisions

In many respects, stability of lease relations depends on the observance of obligations by lessees. At first sight, the share of unfulfilled agreements in 2003 appears to be insignificant (from 1.3% to 4.9%). At the same time, the data provided by lessors show that 51.3% of agreements were not fulfilled *completely*, while according to lessees this percentage comprises 64.4%. Partial fulfillment represents 42.9% and 32.0% (respectively). As compared to 2001, fulfillment of agreement provisions in 2003 became lower in all aspects of lease, including both complete and partial. This can be partly explained by the severe climatic conditions in 2003 that resulted in a general decline of production; primarily that of cereals, which are mainly used for payment.

Table 4.4.1
Agreement provisions implementation

	2001		2003	
	<i>Lessors</i>	<i>Lessees</i>	<i>Lessors</i>	<i>Lessees</i>
Full implementation	77.8	86.4	51.3	64.6
Partial	18.2	12.9	42.9	32.8
Non-implementation	2.0	0.4	4.9	1.3
No answer	2.0	0.3	0.9	1.3
Total	100.0	100.0	100.0	100.0

Thus, fulfillment of land lease agreement provisions in regards to lease relations existing in Moldovan villages today remains rather problematic. Their implementation/non-implementation depends on many reasons such as lessees' profitability level, their "sense of responsibility" and agreement provisions.

Fulfillment of agreement provisions depending on lessors' statuses. Both in 2001 and in 2003, the fulfillment of agreements was the highest in the case of lessees' enterprises hiring lessors.

Table 4.4.2
Implementation of agreement provisions depending on lessees' types of activity (%)

Type of activity	Are the agreement provisions fulfilled?					
	Fully		Partly		Unfulfilled	
	2003	2001	2003	2001	2003	2001
Pensioners	48.4	76.7	46.8	20.0	4.8	3.3
Unemployed	12.5	63.5	75.0	34.9	12.5	1.6
Individual activity	52.4	72.7	42.9	23.6	4.8	3.6
Farm employees	63.0	86.0	35.7	12.5	1.3	1.5
Employees at other types of enterprises	41.3	73.0	47.5	23.4	11.3	3.6

Unemployed lessors are in the worst position. The share of full implementation of agreement provisions in this group was only 12.5%.

Fulfillment of agreement provisions within the fixed time. Fulfillment of land lease agreement provisions within a fixed time is equal to 72.8% in the opinion of lessors, and 82.8% in the opinion of lessees. 14.8% to 7.3% of the agreements were not fulfilled within the fixed time (the answers by lessors and lessees).

Table 4.4.3
Fulfillment of agreement provisions within the fixed time (%)

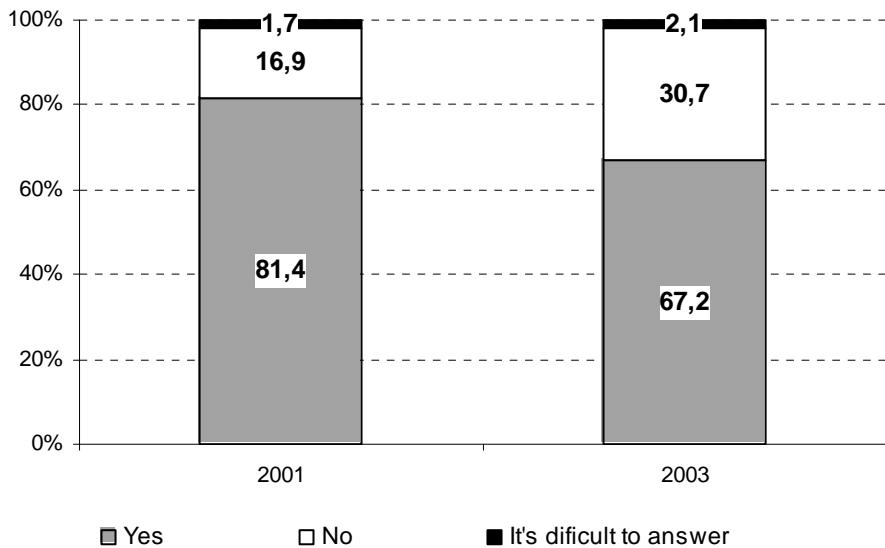
	2001		2003	
	Lessees	Lessors	Lessees	Lessors
Yes	90.3	86.0	82.8	72.8
No	5.0	8.9	7.3	14.8
No response	4.7	5.1	9.9	12.4
	100.0	100.0	100.0	100.0

The reasons for non-fulfillment of agreement provisions are rather numerous including those of an objective nature. Nevertheless, it is a problem requiring the attention of local authorities in order to protect the interests of landowners.

4.5. Satisfaction with Lease Agreement Provisions and Land Use

Satisfaction with lease agreement provisions is a generalized aggregate of assessments of agreement provisions and their quality. Satisfaction can be high, average or low. A high level of satisfaction with lease provisions is an important precondition for the lease relations system development, and for preservation of its stability in the future. Most importantly, satisfaction with agreement provisions reflects the level of lessees' claims.

Chart 4.5.1. Lessees' satisfaction with agreement provisions



As the survey data show, the lessors' level of satisfaction with the agreement provisions in 2003 was lower (67.2%) as compared with 2001 (81.4%).

The reasons for dissatisfaction with lease agreement provisions. The following reasons can be treated as subjectively important elements in the dissatisfaction with lease as a system aimed at receiving land property income.

Table 4.5.1

Reasons for dissatisfaction with agreement provisions (%)

	2001	2003
The lease payment is small	90.3	65.9
Agreement provisions are not observed	4.6	28.6
This year without wheat, without corn		5.5
Payments are delayed	3.7	
Low quality of farming	1.4	
Total	100.0	100.0

As one can observe, both in 2003 and in 2001 the major reason for landowners' dissatisfaction (65.9%) with agreement provisions was "low lease payment". In comparison with 2001, the level of dissatisfaction with payment went down by 24.4%.

The percentage of agreement provisions non-fulfillment grew from 4.6% in 2001 to 28.6% in 2003 (this is probably due to the poor harvest of cereals, which are the main food crop).

One cannot exclude that low lease payment does not depend on low qualities of lease relations as such. Generally, it results from the low market value of agricultural land in the Republic of Moldova (in rural areas). Additionally, small sizes of leased out land parcels cannot ensure satisfactory incomes to their owners.

Satisfaction with agreement provisions of lessors with different social statuses. Lessors' social statuses directly impact the level of satisfaction with agreement provisions as long as positions of people in the society, their needs and the level of these needs are different.

Table 4.5.2

Satisfaction with agreement provisions depending on the lessors' types of activity

	<i>Are you satisfied with agreement provisions?</i>			
	<i>2001</i>		<i>2003</i>	
	<i>Yes</i>	<i>No</i>	<i>Yes</i>	<i>No</i>
Pensioners	73.0	27.0	72.1	27.9
Unemployed	71.0	29.0	33.3	66.7
Individual activity	70.9	29.1	66.7	33.3
Agricultural enterprise employees	87.5	12.5	77.8	22.2
Other type of enterprise employees	71.2	28.8	59.5	40.5

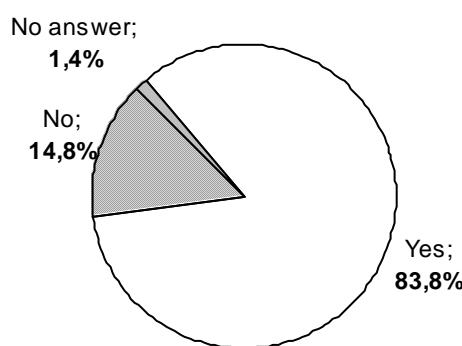
According to the survey data, both in 2003 and in 2001, the first group satisfied with lease provisions included agricultural enterprise employees (77.8% and 87.5% respectively). This was the group of lessors working on their leased lands, resulting in the opportunity to more objectively estimate the results of the year (the harvest and costs).

The group of pensioners preserved a high enough level of satisfaction with lease provisions. Their lease income was an addition to their pensions and social benefits. For this reason, their estimation was positive.

The least satisfied in 2003 was the group of unemployed (33.3%). The lease income is the only permanent official income for this group of respondents. Their level of expectations is naturally higher than that of other groups; the gap between their needs as well as the possibility to satisfy them using their lease income was lower than in other groups.

Satisfaction with land use. Satisfaction with the manner in which lessees farm land can serve as an indicator of owners' attitude to their land. For the lease system as a whole, it is a condition of its stability in future.

Chart 4.5.2. Are you satisfied with the way the lessees farm the land?



At present, land is a major value for landowners. However, a landowner is concerned that the value of leased-out land does not decrease during its use by the lessee.

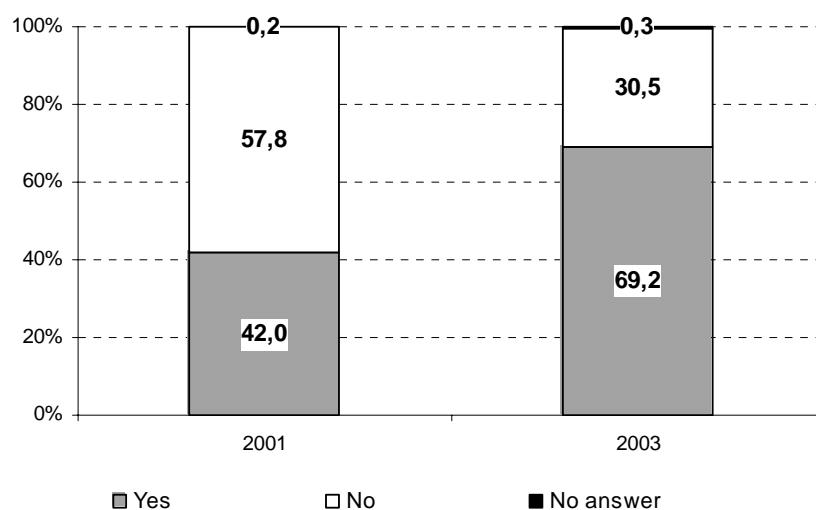
As one can see from the lessors' answers, the majority (83.8%) is satisfied with the level of farming of their leased-out parcels. Only 14.8% (or every 8th lessor) is dissatisfied.

5. Perspectives for Land Lease Stability

5.1. Need for Funds, Access to Credits

Limited funds, as well as difficulties in accessing credits create obstacles hindering the development of lease relations in the Republic of Moldova. Lack of funds “ties-up” lessees’ plans, and impedes the transition to the cash form of lease payment. Obtaining credits is one of the solutions to this issue.

Chart 5.1.1. Obtaining of credit by lessees



According to the survey results, 2/3 of lessees (69.2%) received credit in 2003, while 30.5% didn't receive any. This is a positive indicator, as the percentage of lessees using credit within the last three years increased by 27 points.

However, the credit-based economic activity, which is a usual type of activity under developed market relations, is developing slowly in the Republic of Moldova.

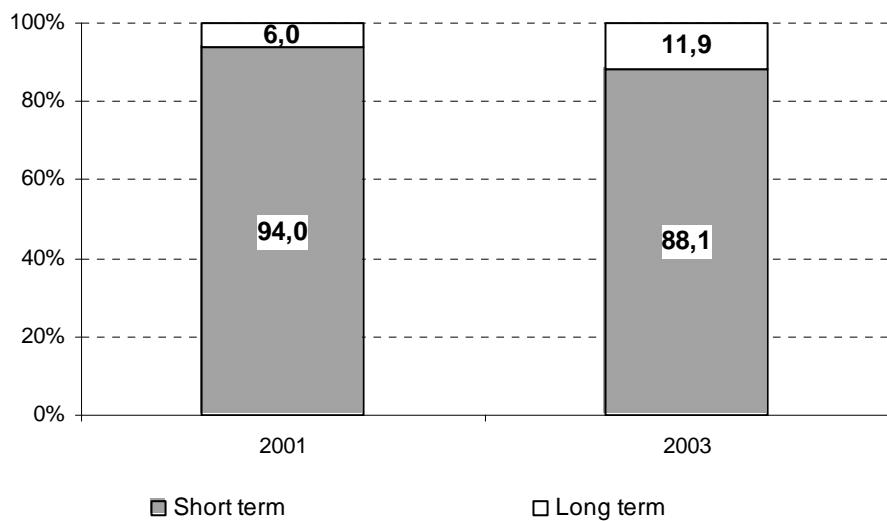
**Table 5.1.1
Obtaining credit per each type of enterprise legal form**

	2001		2003	
	Yes	No	Yes	No
LTD	45.7	54.3	74.0	26.0
PF	37.8	62.2	54.2	45.8
ACoop	33.3	66.7	64.3	35.7
JSC	50.0	50.0	100	-
IE	50.0	50.0	61.1	38.9

It is obvious that difficulties in obtaining credit after completion of the land reform are being overcome. In 2003, all legal forms of lessees' enterprises registered an increased level of credit received. This particularly refers to JSCs and, to a smaller extent, LTDs. The results show both an increased trust of creditors in lessees' enterprises and enterprises/lessees' growing certainty of a favorable outcome of their economic activity.

For the same reason, the share of long-term credits doubled in 2003 versus 2001 (from 6% to 11.9%).

Chart 5.1.2. Division of credit by payback term



Especially notable is the increased share of long-term credits in PFs – 4.3 times, and LTD – 2.3 times. Taking into account the fact that these legal forms of lessees' enterprises are dominating in their overall massif, this tendency can be considered favorable for strengthening the lease relations.

Table 5.1.2

Credit received for one year and over (%)

	<i>Short term</i>		<i>Long term</i>	
	<i>2001</i>	<i>2003</i>	<i>2001</i>	<i>2003</i>
LTD	94. 7	87.8	5. 3	12.2
PF	94. 6	76.9	5. 4	23.1
ACoop	60. 0	88.9	40. 0	11.1
JSC	100	100	-	-
IE	100	100	-	-

5.2. Future Intentions of Lessees

Lessees' subjective intentions, together with quantitative lease indicators which demonstrate an extended area of lease relations in the Republic of Moldova are extremely important. Lessees' intentions prove the fact of difficult and oftentimes contradictory processes characterizing the lease relations system of the country.

Table 5.2.1

Lessees' future intentions regarding land (%)

<i>Future plans of lessees- leaders</i>	<i>2001</i>	<i>2003*</i>
To purchase land and own it privately	16. 8	17.5
To extend lease agreements	73. 3	78.4
To stop farming part of the land	4. 5	12.9
To purchase agricultural machinery and equipment for processing	3. 4	20.9
Other	1. 3	1.0
No answer	0. 7	0.0
Total	100.0	130.7

* The sum is over 100% because respondents were allowed to choose more than one option

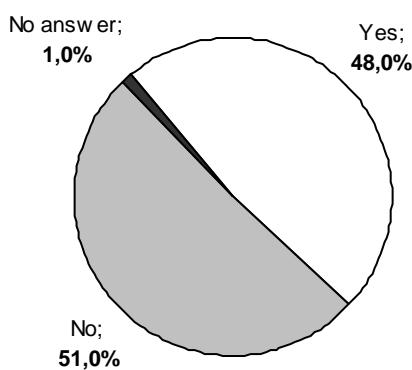
These results reveal the processes demonstrating an improved economic situation of lessees: many of them (17.5%) plan to purchase land in private ownership. On the other hand, 12.9% of lessees intend to stop farming part of the leased-in land (4.5% in 2001). Most importantly, the share of lessees wishing to purchase agricultural machinery increased 6 times (up to 20.9%) from 2001.

The share of lessees planning to lease more land also increased inconsiderably (by 5%) in 2003. The share of those who will extend the leased land area will be high, at least in the immediate future, as long as the number of peasants wishing to sell their land remains insignificant.

Lessees' plans regarding perennial plantations. The current stage of lease relations is characterized by a relative balance between the share of lessees intending to plant orchards and vineyards and the share of those abstaining from this practice, including making any future plans in relation to these activities.

Proceeding from the fact that not all lessees connect their future plans with fruit/vine growing, it becomes obvious that the implementation of perennial crops plantation plans is influenced by the difficult situation in the current lease relations development stage (investments, credits, lease stability).

Chart 5.2.1. Do you intend to plant orchards or vineyards on the leased-in land?



Plantation of orchards and vineyards by lessees is mainly held by the short lease term; 66.9% of lessees expressed their apprehension of investing funds in the land owned by other people. Almost half of respondents pointed out high "unreliability" of the legislation regulating agricultural land lease (48.0%). The third reason given by respondents for not planting perennial crops was expensive bank credits (4.7%).

Table 5.2.2
Reasons making lessees restrict their plans regarding plantation of perennial plants

	%
The legislation on agricultural land lease is constantly modified.	48,0
I am afraid to invest funds in the land belonging to other people	66,9
The interest rate on credits is very high	11,7
Other	2,6
	129,2*

* The sum is over 100% because respondents were free to choose more than one option

5.3. Lease Relations Perspectives as Viewed by Lessors and Lessees

The future of lease relations in Moldova depends to a large extent on landowners' wishes to lease out their land and lessees' wishes to enter into a lease arrangement (as well as on the Government's position).

Table 5.3.1 includes information about landowners' plans:

Table 5.3.1
Lessors' future plans (%)

	2001	2003
To extend the lease agreement	79,4	74,8
To terminate the agreement and lease out the land share to another leader	3,2	7,0
To terminate the agreement and farm the land share individually	6,4	2,9
To modify the lease agreement	-	13,9
Don't know/No answer	11,0	1,4
Total	100,0	100,0

It is apparent that a majority of lessors intend to continue leasing out their land. Only 2.9% of the interviewed peasants expressed an intention to terminate their lease agreements and farm individually in the future, and 1.4% have not yet determined their plans regarding lease relations.

The majority of lessors (95.7%) intend to remain in the lease relations system in the future, 74.8% intend to extend their lease agreements, 13.9% of them plan to review their lease relations still remaining in the lease relations system and 7.0% intend to sign lease agreements with other lessees.

Table 5.3.2
Lessors' plans by type of activity

	<i>To extend the agreement</i>		<i>To terminate the agreement and lease out the land share to another leader</i>		<i>To terminate the agreement and farm the land share individually</i>		<i>To modify the agreement</i>		<i>Don't know</i>		<i>Total</i>	
	2001	2003	2001	2003	2001	2003	2001	2003	2001	2003	2001	2003
Pensioner	80,7	84,1	5,8	3,2	5,8	1,6	-	11,1	7,7	-	100	100
Unemployed	54,8	37,5	8,1	18,8	21,0	12,5	-	31,0	16,1	-	100	100
Individual activity	53,3	66,7	3,3	9,5	30,0	-	-	23,8	13,4	-	100	100
Agricultural worker	84,6	86,9	2,7	5,2	3,7	0,7	-	7,2	9,0	-	100	100

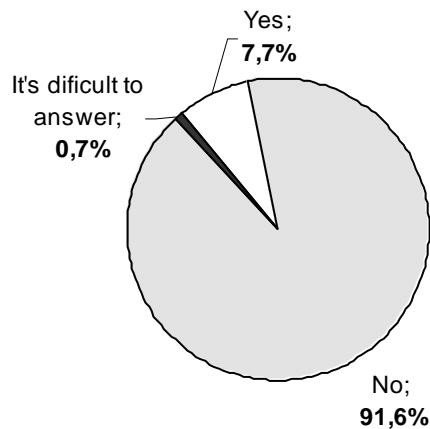
Employee of other enterprise	61,5	59,0	1,7	10,3	12,0	7,7	-	23,0	24,8	-	100	100
-------------------------------------	-------------	-------------	------------	-------------	-------------	------------	----------	-------------	-------------	----------	------------	------------

As indicated in Table 5.3.2, the plans of land owners leasing out their land are constantly changing. At the same time, lease relations seem to be acceptable for a majority of landowners looking towards the future in spite of the existing problems.

5.4. Land Sale/Purchase Plans

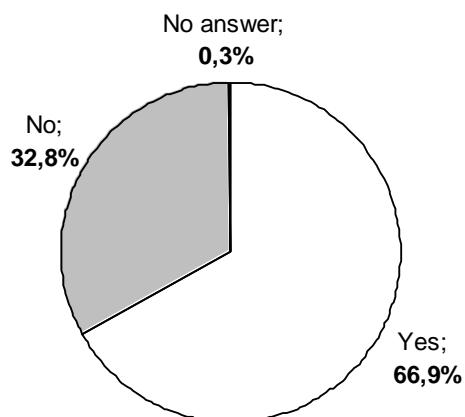
The majority of landowners do not plan to sell their agricultural land (at least in the immediate future).

Chart 5.4.1. Do you want to sell your land?



So far, only a small part of respondents (7.7%) is ready to sell land. The majority (91.6%) will continue practicing the existing land use forms (lease and individual farming). To date as well as in future, land remains the only guarantee of well-being for peasants.

Chart 5.4.2. Would you like to purchase land?



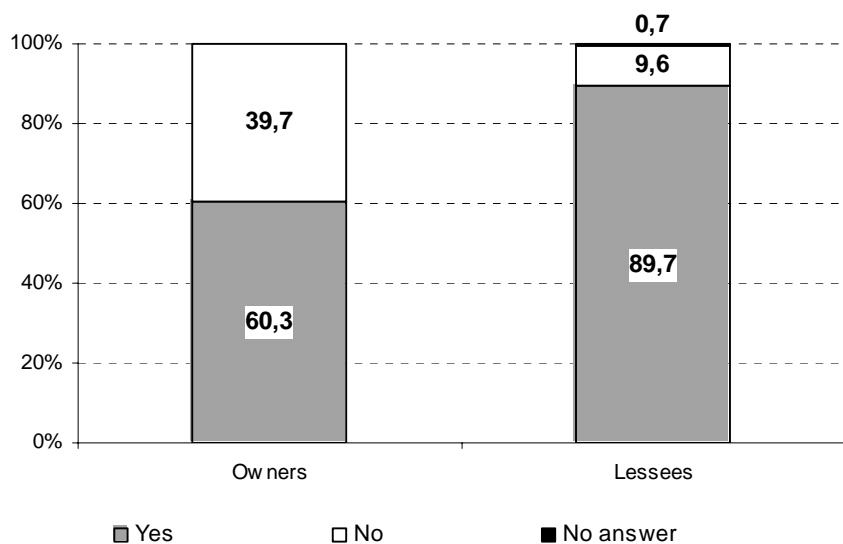
It is evident that a majority of lessees (66.9%) is ready to purchase land and is already doing so. It is also evident that there is no large scale land market in the country as yet.

6. Position Regarding Revival of Collective Farms (Production Cooperatives)

6.1. Landowners' and lessees' awareness of the developed Draft Law on Agricultural Land Consolidation

The level of landowners' and lessees' awareness of the developed Draft Law on Agricultural Land Consolidation varies. It is obvious that respondents received information on the Draft Law through different channels including "by word of mouth". Unfortunately, the awareness level of landowners (the main actors in the potential changes) is 1/3 lower than that of lessees; 63.3% and 89.7% respectively.

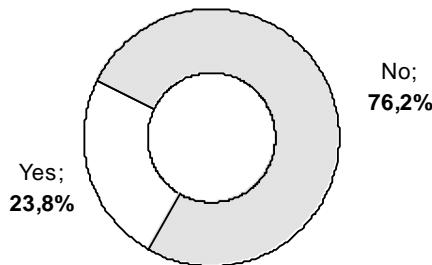
Chart 6.1.1. Are you aware of the developed Draft Law on Agricultural Land Consolidation?



6.2. Transfer of Land to Production Cooperatives

The willingness or unwillingness of landowners to sell their land is dependent on differences in income, experience and desire to own and farm land collectively or individually when free to determine the form used.

Chat 6.2.1. Would you like to transfer your land to a collective farm for land consolidation purposes?



Most landowners (76.2%) prefer to farm their land share individually and do not agree to transfer it to collective farming. However, one fourth of landowners (23.8%) are willing to transfer their land to production cooperatives for various reasons.

As one can see, collective land ownership use (although being both state and cooperative) in the Republic of Moldova has a half-century long history. Most rural residents have lived their lives working in collective farms, and a majority of respondents connect their future with private ownership and individual farming of the land shares received after privatization.

Reasons explaining landowners' negative attitude towards transfer of land to production cooperatives. The reasons explaining landowners' intentions to continue farming individually are different. However, all reasons given can be explained by the realities of the "new time", such as private ownership, market relations and freedom of action.

Table 6.2.1
Why do you refuse to transfer your land to a collective farm?

	%
I'm satisfied with my lease terms	31.1
I can sell my land anytime	38.1
I will not receive the lease payment	16.1
The collective farm will not farm the land more efficiently	24.2
I will not be able to bequeath my land	48.7
The collective farm employees' attitude will be irresponsible	24.2
Other	7.0

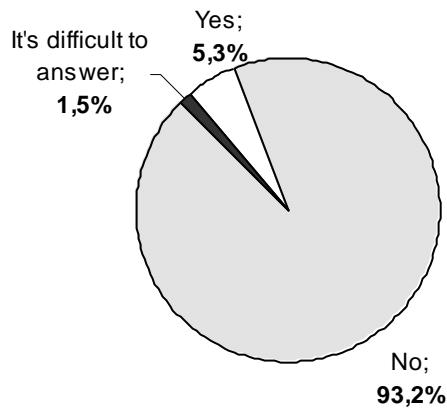
The question of the future generation is of foremost concern. 48.7% of landowners are afraid that they will not be able to bequeath their land to heirs. The freedom to decide upon the future of their land parcels stands second. 38.1% of landowners value their freedom of choice, which may be lost should the land be transferred to production cooperatives. 31.1% of lessors are satisfied with their lease payment. The fourth and fifth reasons are related to the collective farming negative experience. "The collective farm will not use land more efficiently" – 24.2% and "Collective farm members will be irresponsible again" – 24.2%.

If we unite items 1 and 3, which would be quite logical, it shows that 47.2% of landowners will have to give up leasing out their land should it be transferred to production cooperatives.

Landowners' consent to receive a different land parcel. According to the survey results, most peasants "have become accustomed" to their land parcels during the short period of private land

ownership, and do not want to get a different land parcel in return. Only a small number of landowners agree to get a different land parcel (5.3%), or have no clear opinion on the matter (1.5%).

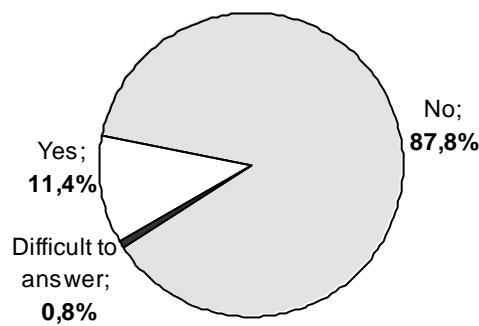
Chart 6.2.2. Do you agree to be allocated a different land parcel after consolidation?



According to the survey data, most landowners (93.2%) consider the received land as “their own property”. They are happy with their current status and land parcels, and are not willing to give them away.

Landowners' right to exit production cooperatives. Most landowners would like to preserve their newly acquired right of freedom to act.

Chart 6.2.3. Do you agree that the owners having consolidated their land parcels in a collective farm should not have the right to exit this farm?

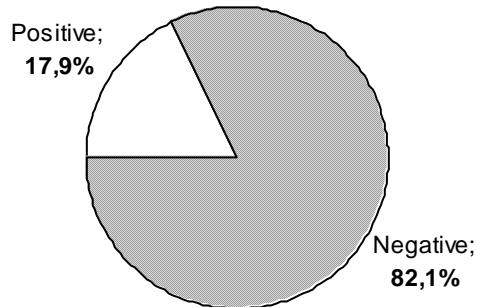


According to the survey data, 87.8% of landowners would like to be given the right to exit the cooperative should they wish to do so after joining it. Every tenth (11.4%) landowner does not consider the right for free exit from the cooperative an important issue.

6.3. Lessees' Position Regarding Creation of Production Cooperatives

The Draft Law on Land Consolidation through organization of production cooperatives directly affects the interests of lessees as a social group. Therefore, most lessees' negative reaction to the Draft Law (82.1%) is fully predictable and explicable.

Chart 6.3.1. What is your attitude towards land consolidation through creation of production cooperatives?



It would be interesting to know why the attitude of 17.9% of lessees towards the Draft Law is positive. Their position can be probably explained by the fact that Moldova's young market economy makes lease a risky business. Not every leader finds lease-based farming in this situation of uncertainty and competition an easy business. Besides, some people still remember the times when they were farming without having to take any risks. The hope that the state will ensure a more reliable input supply as well as assistance in the marketing of goods is another attractive aspect of production cooperatives, which may account for lessees' positive attitude towards land consolidation through creation of production cooperatives.

Reasons of leaders' negative attitude towards land consolidation through creation of production cooperatives. The main reason for their negative attitude towards land consolidation through creation of production cooperatives is more of personal and social rather than of economic nature. Leaders consider that enactment of the Draft Law on Land Consolidation through creation of production cooperatives will violate their land ownership right. This is the opinion of every other leader – 59.3%.

Table 6.3.1

Reasons for lessees' negative attitude towards land consolidation through creation of production cooperatives

	%	Rang
It violates the land ownership right	59.3	1
The General Meeting is the supreme body	22.2	5
Irresponsibility of cooperative managers and specialists	43.7	3
The assets will not be ownerless	48.3	2
It creates conditions for embezzlements	37.1	4
Other	1.0	
Total	211.6*	

* The sum is over 100% because respondents were free to choose more than one option

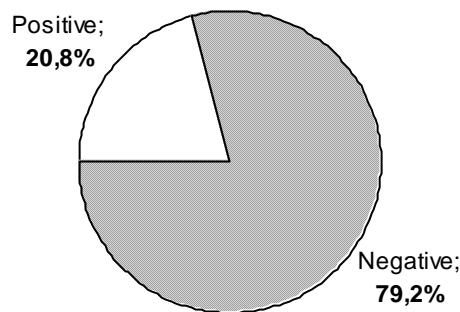
Ownership rights make a person truly free. Every other leader has probably experienced what these words mean, which accounts for this group's reaction.

The reasons rated second and third are connected with the fear that “the ownership feeling” will be lost in the cooperative (the assets will belong to everybody, i.e. to nobody) – 48.3% and the fear that management will become irresponsible again – 43.7%, which would result in possible embezzlements – 37.1%. The estimations given by collective production participants must have been the result of "recollections of their past".

Lessees' assessment of landowners' attitude towards land consolidation through creation of production cooperatives. The lessees' position regarding production cooperatives can be understood when accounting for their interests. Most of them plan to expand their lease-based activity or to buy some land. Therefore, their opinions reflect a subjective attitude towards collective ownership.

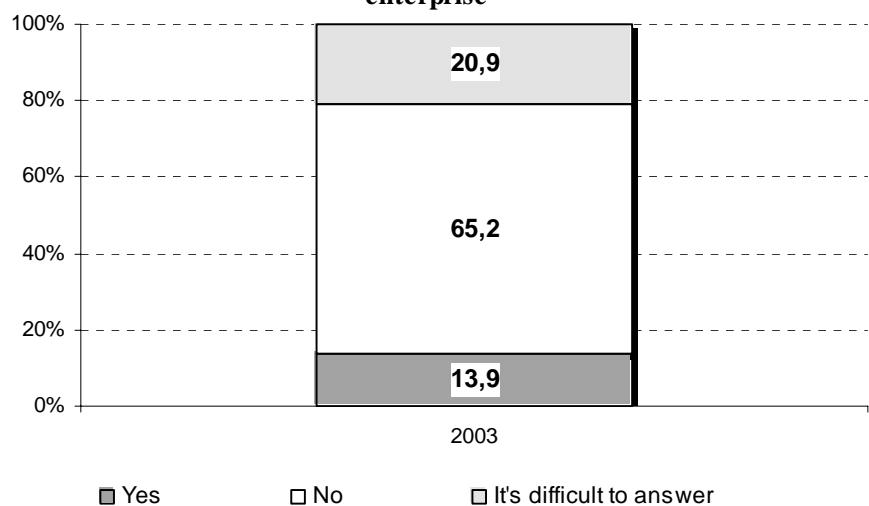
It is interesting to note that 20.8% of the lessees and 23.8% of lessors agree to revert to collective farming.

Chart 6.3.1. What do you think will be the landowners' attitude towards land consolidation through creation of collective farms?



The majority of lessees see their future as private farmers and 65.2% of them will discontinue their agricultural activity should they be “invited” to work in collective-type production cooperatives.

**Chart 6.3.2. Lessees who will continue agricultural activity
should they be "invited" to work in collective-type
enterprise**

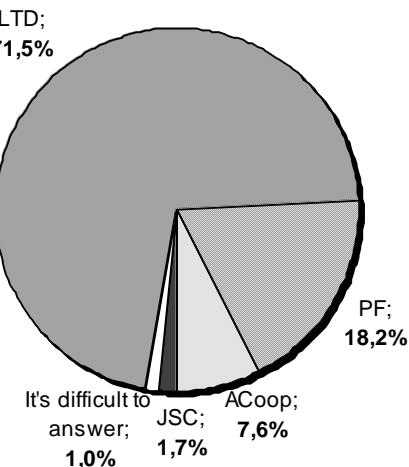


A minority of lessees or approximately every tenth of respondents (13.9%) consented to work in agriculture under any form of ownership.

6.4. Preferences and Projections for the Future of Different Legal Forms of Agricultural Enterprises

After privatization, the legal form of business chosen by lessees for their enterprises have become the most valuable tool for achieving their main goal – making profit. Below are the responses given to the question on “preferences” confirming this point of view.

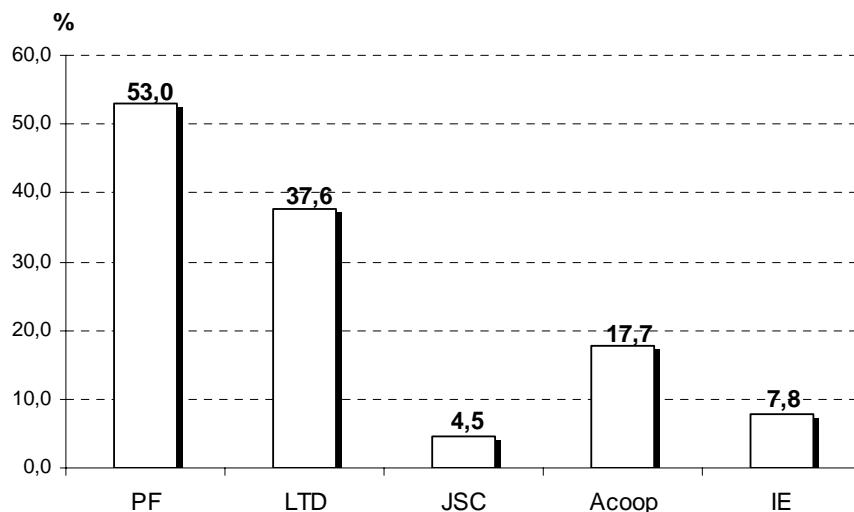
Chart 6.4.1. What legal form would you prefer?



One can see that each legal form of agricultural enterprises existing in Moldova was rated higher than its actual share. However, the rating order remains the same: first come LTD – 71.5% (variance range 5.3%), followed by PFs – 18.2% (2.0%), cooperatives – 7.6% (3.0%), and JSCs – 1.0% (0.4%).

Projections for the future prevalence of legal forms of enterprises. In landowners' opinion, Peasant Farms have the greatest development potential. In the future, these enterprises will hold a leading position. The huge variance range – 38.2% indicates the difference between estimations of the future and the current status of this legal form of ownership.

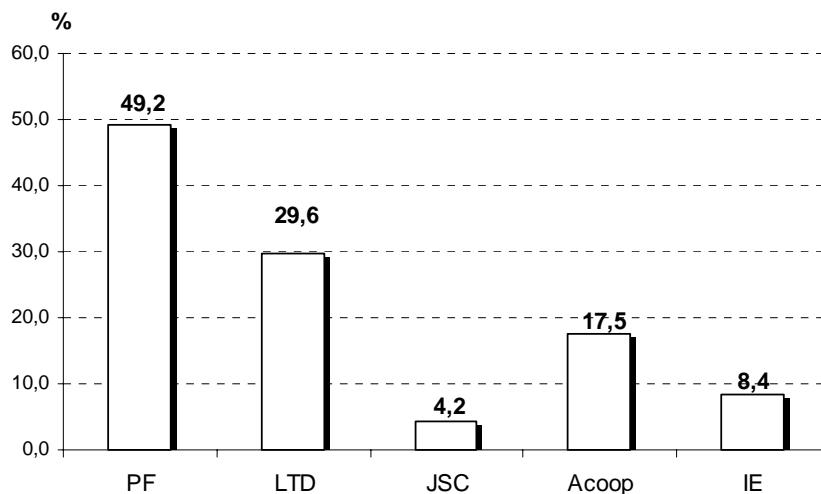
Chart 6.4.2 Enterprises forms, which, in the landowners' opinion, will be the most popular in future



In landowners' opinion, the LTD status will change for the worse – from the highest rate with currently 71.6% to 37.6% (range of variance is 34.0%). The share of the remaining legal ownership forms will increase insignificantly, according to landowners' opinion.

Estimation of the current legal enterprise form's efficiency. Landowners estimate the efficiency of a lessees' legal enterprise form by the income they obtain from land lease. It is quite possible that landowners' appreciation depends not only on the real, but also on the anticipated income resulting from opportunities offered by a particular legal form of lessees' enterprises.

Chart 6.4.3 Most efficient legal forms based on landowners' opinions



In landowners' opinion, the most efficient legal forms are PFs – 49.2%, LTD – 29.6%, and cooperatives – 17.5%.

The ownership feeling and information on the positive foreign private farming experience probably account for the high rate of peasant farms. It is interesting to note the low efficiency rate given to LTD – 29.6%. In reality, 71.6% of landowners lease out their land to this type of enterprises. This low rating probably results from unregulated relations with lessees in terms of the form and size of lease payment and management level. As to PFs, JSCs and state enterprises, their efficiency rate is an expected potential rather than the actual one because these types of lessees' enterprises have not yet demonstrated their efficiency on a large scale.

Time and experience will surely adjust the landowners' estimations regarding preferable management forms.

Conclusions and recommendations

Upon completion of the land reform, over 1 million rural residents received their private land shares. The first years of the post-privatization period were characterized by an intensive development of lease relations as the most popular form of farming with land sale/purchase transactions being still very rare.

Initial experience in the land lease that became widely practiced since 1999 has revealed both its advantages and the problems that need to be resolved.

On the one hand, land lease helped consolidate land, increase incomes of the landowners having leased out their land, and encourage the manufacturing of export-oriented goods in rather large production volumes. On the other hand, a certain ambiguity is preserved in regards to the future of lease relations as a steady and long-term use of land. Due to this fact, the majority of lease agreements are signed for 3-5 years, the scale of investments, as well as the use of machinery and efficiency of technologies remain rather low. The momentary rather than long-term interest is prevailing, i.e. obtaining of income only. This fact negatively affects the diligent use of land resources, which are the main wealth of the country.

The objective of the given study was to determine the extent to which the lease is spread based on the data obtained in 2003, the nature and problems of mutual relations of the subjects of lease (lessors and lessees), and their preferences and projections for the nearest future. Proceeding from these objectives, the Center for Strategic Studies and Reforms (CISR) carried out in November 2003 a sociological research in 302 communities of all 32 administrative rayons and TAU Gagauzia (except for Transnistria). The survey covered more than 1200 respondents including about 600 landowners, as well as lessees and mayors of communities.

Similar research was carried out by CISR in March 2001, which enables us to draw comparison on a number of key positions.

Conclusions on the results of the study "Lease – 2003" can be generalized as follows.

1. *In 2003, about 50% of the overall area of all privately owned land parcels was farmed on a lease basis. The average size of a leased land plot in 2003 was 835.9ha (in 2001 – 680ha). In the total land area farmed by lessees, the share of leased land constitutes more than 99%. Less than 1% belongs to lessees based on the ownership right. In 2003, primarily small and middle size land parcels were involved in commodity circulation. 67% of leased parcels were under 2ha and 19.1% from 2 to 3ha.*
2. *The number of lessee enterprises during the last three years (2001-2003) grew by 1/3, which shows the interest of both sides in the lease form of farming. The major legal forms of lessee enterprises are limited liability companies and peasant farms. The former constitutes 62.2% to 71.6% of leased parcels while the share of the latter is from 14.8% to 16.2% (the estimations are provided by lessors and lessees respectively). The employees' education status has improved during the three years which is proven by a 10% increase - 73.8% (versus 63.3% in 2001).*
3. *Lease relations create additional jobs in rural areas. In 2003, almost half of lessors (46.7%) worked on leased land. At present, lease relations help resolve two basic problems of landowners, a) 64.9% of landowners indicated lack of necessary*

machinery as a reason for leasing out their land; and b) 27% - poor health and age problems. A majority of lessors are people 40 and over (84.2%).

4. A majority of lessors and lessees legally registered their lease relations and only about 7% failed to do it officially. In 2003, *the number of registered lease agreements grew 5% versus 2001, i.e. 90.8% and 85.5% respectively. The share of short-term (3-5 years) land and property lease agreements constituted about 90% and only 1/10 of the agreements were long-term. The sphere of lease relations is rather stable; only 10% of lessors noted changes in their agreements.*
5. 60% of land lease payment is fixed and about 1/3 of it is in the form of “percentage of the received income”. About *80% of the land lease payment is in kind. The cash form payment constitutes about 4% and mixed one – about 10%*. In 2003, the number of completely fulfilled lease agreement provisions went down and, accordingly, the number of those partially fulfilled or completely unfulfilled went up. The share of “failures to pay within fixed deadlines under the signed agreements” was about 10%.
6. A majority of lessors (83.8%) are satisfied with the quality of farming “of their land”, i.e. quality of cultivation in the process of lease. However, the number of those dissatisfied with agreement provisions, quality of farming and lessees' attitude towards land is also considerable (16.9%).
7. One can observe some progress in the sphere of lease crediting. The number of lessees having obtained credits in 2003 went up by 25% versus 2001. The number of long-term credits (over one year) nearly doubled.
8. *Lease stability.* Most lessees are going to continue working in the sphere of lease relations as 78.4% of the polled lessees stated. Half of lessees noted their plans to plant orchards and vineyards; the other half has no such plans. The principal reason is lack of confidence in the future. 48.0% noted “very frequent changes of legislation” as a negative factor influencing their plans. 66.9% said they fear “investing significant money in other people's land” (they obviously mean here short-term lease). The majority of landowners involved in lease relations plan to continue them. 74.8% are going to extend their lease agreements, 13.0% are going to change agreement provisions and 7.0% are going to join other leaders. However, both the former and the latter will remain in the sphere of lease relations.
9. *Land sale.* Most landowners (91.6%) have no plans to sell their land shares in the nearest future. Only a small part of them (7.7%) has such plans. At the same time, the major part of lessees (66.9%) would like to buy land. It is obvious that, at least in the nearest future, both subjects of the lease relationship are planning to continue their lease relations.
10. *Preferences in the forms of farming.* About 75% of landowners do not support the idea of transferring their land to production cooperatives. In explaining their position the landowners say, “I will not be able to transfer land to my heirs” (48.5%), “if land is my own, I can sell it at any moment” (38.1%), “I am happy with the lease provisions” (31.1%), “collective farm administration will be irresponsible again” (24.2%).

82.1% of lessees do not support this idea either saying that, “they are losing their ownership right over land” (59.3%), “everything becomes ownerless again” (48.3%), “there will again appear irresponsible collective farm employees” (43.7%) and that, “there are again created conditions for embezzlements” (37.1%). The most preferable legal forms of enterprises in the lessees' opinion are limited liability companies – 71.5% (the number of lessees having leased in land is 66.2%), and peasant farms – 18.2% (the number of farmers having leased in land is – 16.2%).

The most effective legal forms of enterprise in the opinion of landowners are peasant farms (49.2%) and limited liability companies (29.6%). Landowners consider that these legal forms will remain the most widespread in the Republic of Moldova in the nearest future with their shares being 53.0% and 37.6% respectively. Collective farms will follow with 17.7% according to their estimates.

Practice shows that the existence of different legal enterprise forms in Moldova's agrarian sector is quite justified. Time and competition will reveal their viability as well as strong and weak points of each of the existing legal form.

The undertaken study makes it possible to offer the following **recommendations** on the improvement of land relations in Moldova.

- a) To ensure real equality for all legal forms of enterprises. The most efficient forms should be revealed as a result of fair competition;
- b) To ensure equal access for all types of enterprises to the agricultural state subsidizing programs;
- c) To consider the possibility of reducing the land tax for participants of land lease relations having signed lease agreements for more than 10 years in order to stimulate long-term leases;
- d) To simplify and reduce the price of the land registration procedures relating to the process of exchange, sale/purchase, donation, transfer or bequeathal of land;
- e) To create a special fund for paying additional compensations to pensioners selling their land parcels;
- f) To continue work on the rural micro-financing system development;
- g) To stimulate development of leasing companies and business cooperatives rendering services to private farmers;
- h) To develop and adopt the Law on Mortgage Lending in Agriculture;
- i) To launch projects similar to the 2KR using its positive experience of activity and aiming at providing farmers with small irrigation systems, veterinary and agrichemical service stations, as well as vehicles for transporting agricultural products;
- j) To involve more actively the NGOs in holding an awareness campaign for the rural population in order to explain the main points of the new Law on Lease in Agriculture as well as the documents related to it, specifically regarding the rights and obligations of landowners and lessees.

Annex 1
Questionnaire for the poll

“Lease of Agricultural Land”

FOR COMMUNITY MAYORS

Operator _____ Date “ ____ ” November 2003

A1. Mayor (last name, first name) _____
Community _____
Rayon _____

A2. Structure of agricultural land in the community and of land shares allocated to the population in the course of privatization:

	Agricultural land subject to privatization*, ha	Size of agricultural land share (according to the project), ha	Number of shares allocated in kind	Area of land allocated in kind, ha
TOTAL				
<i>Including</i>				
Arable land				
Orchard				
Vineyard				

* except for the household parcels and land plots allocated to social sphere workers
A3. Allocation of land shares in your community:

Total number of the population	
Number of persons entitled to land shares	
Number of persons having received land shares in kind	
<i>Including</i> those who haven't yet registered their farms	

A4. Agricultural enterprises operating on the territory of the community to date:

Enterprise legal form	Total No. of enterprises	Registered	unregistered	Area of agricultural land, ha	
				total	leased in
Peasant Farm					
Agricultural Cooperative					
Limited Liability Company					
Joint Stock Company					
Other (indicate):					

Annex 2

Questionnaire for the Poll

“Lease of Agricultural Land”

FOR LANDOWNERS

Operator _____ Date “____” November 2003

A1. Size of agricultural land share (without household plots), ha

1	Total agricultural land	_____
2	including: arable land	_____
3	orchards	_____
4	vineyard	_____

A2. Did you lease out your land?

1	Yes
2	No (<i>go to question A23</i>)

A3. If yes, was it only:

1	Arable land _____, ha
2	Orchard _____, ha
3	Vineyard _____, ha

A4. What is the form of the enterprise leasing in your land?

1	Limited Liability Company
2	Peasant Farm
3	Agricultural Cooperative
4	Joint Stock Company
5	Other

A5. Enterprise location: village _____, rayon _____

A6. Have you signed a land lease agreement with the lessee?

1	Yes
2	No

A7. If yes, do you have a copy of the agreement?

1	Yes
2	No

A8. Lease term _____ years

A9. Lease payment conditions

1	Fixed payment
2	% of the total harvest
3	Mixed payment

A10. Form of lease payment

- 1 In cash
- 2 In kind
- 3 Mixed

A11. Lease payment amount per land share

- 1 Cash _____, lei
- 2 Wheat _____, kg
- 3 Corn _____, kg
- 4 Barley _____, kg
- 5 Sunflower _____, kg
- 6 Other (indicate) _____

A12. Are you satisfied with the lease agreement provisions?

- 1 Yes
- 2 No

A13. If no, explain why?

Indicate _____

A14. Are the agreement conditions fulfilled?

- 1 Entirely
- 2 Partially
- 3 Not fulfilled

A15. If they are fulfilled, was it

- 1 Within the established deadline
- 2 With the deadline violated

A16. Are you satisfied with the manner the lessee uses your land?

- 1 Yes
- 2 No

A17. If no, explain why? Indicate _____

A18. Are you an employee of the enterprise leasing in your land?

- 1 Yes
- 2 No

A19. Are your family members employed by this enterprise?

- 1 Yes
- 2 No

A20. What made you lease out your land instead of farming it individually?

- 1 Health
- 2 Lack of agricultural machinery
- 3 Lack of knowledge
- 4 Difficulties in selling products
- 5 Other (indicate) _____

A21. Have you signed a property share lease agreement?

- 1 Yes
- 2 No

A22. What are your future plans?

- 1 To extend the lease agreement
- 2 To terminate the agreement and lease out the land to another leader
- 3 To terminate the agreement and farm land individually
- 4 To modify the lease agreement

A23. Do you know that a Draft Law on Agricultural Land Consolidation has been developed?

- 1 Yes
- 2 No

A24. Would you like to transfer your land to a collective farm (production cooperative) for the purpose of land consolidation?

- 1 Yes
- 2 No

A25. If yes, explain why?

- 1 I don't know what to do with land
- 2 I don't want to own land
- 3 I don't want to farm land
- 4 The collective farm will farm land more efficiently
- 5 Other (indicate) _____

A26. If no, explain why?

- 1 I am satisfied with lease conditions
- 2 I can sell my land at any time
- 3 I am not sure that I will receive any lease payment
- 4 The collective farm will not farm my land more efficiently
- 5 I will not be able to bequeath my land to heirs
- 6 Collective farm „employees” will become irresponsible again
- 7 Other (indicate) _____

A27. If no, will you agree to be allocated a different parcel after consolidation?

- 1 Yes
- 2 No

A28. Do you agree that the owners having transferred their land to the collective farm should have no right to withdraw it from this farm?

- 1 Yes
- 2 No

A29. What legal form is more efficient in your opinion?

- 1 Peasant Farm
- 2 Limited Liability Company
- 3 Joint Stock Company
- 4 Collective farm (production cooperative)
- 5 State enterprise

A30. What types of enterprises will be widely spread in future Moldova to your mind?

- 1 Peasant Farms
- 2 Limited Liability Companies
- 3 Joint Stock Companies
- 4 Collective Farms (production cooperative)
- 5 State Enterprises

A31. Would you like to sell your land?

- 1 Yes
- 2 No

C1. Your age _____

C2. What is your current occupation?

- 1 Pensioner
- 2 Unemployed
- 3 Individual activity
- 4 Employee of an agricultural enterprise
- 5 Employee of some other type of enterprise
- 6 Other (indicate) _____

C3. Your education

- 1 Secondary
- 2 Agricultural vocational
- 3 Non-agricultural vocational
- 4 Agricultural university
- 5 Non-agricultural university

Annex 3

Questionnaire for the Poll

“Lease of agricultural land”

FOR LAND LESSEES

Operator _____ Date “____” November 2003

A1. Legal form of your enterprise:

- 6 Limited Liability Company
- 7 Peasant Farm
- 8 Agricultural Cooperative
- 9 Joint Stock Company
- 10 Other

A2. Date of your enterprise registration “____” _____

A3. Enterprise location: village _____, raion _____

A4. Area of agricultural land, ha

		Leased in	Owned by the enterprise
5	Total agricultural land	_____	_____
6	including: arable land	_____	_____
7	orchard	_____	_____
8	vineyard	_____	_____

A5. Number of leased-in agricultural land shares _____

A6. Average size of an agricultural land share _____, ha

A7. How many persons leasing out their land to you are employed at your enterprise?

A8. Land lease term _____ years

Property share lease term _____ years

A9. Did you sign land lease agreements with the owners?

- 1 Yes
- 2 No

A10. Are these agreements registered?

- 1 No
- 2 Yes, with the mayor's office
- 3 Yes, in the cadastral register

A11. How many landowners have terminated their agreements with you during the last 2 years? _____

A12. What were their reasons for terminating the agreements? (Indicate)

A14. How did you resolve the issue of reallocation of parcels to those who terminated their agreements?

A15. How could this issue be settled in your opinion?

A16. Lease payment conditions

- 1 Fixed payment
- 2 % of the total harvest
- 3 Mixed payment

A17. Lease payment form

- 4 In cash
- 5 In kind
- 6 Mixed

A18. Lease payment amount per land share

- 7 Cash _____, lei
- 8 Wheat _____, kg
- 9 Corn _____, kg
- 10 Barley _____, kg
- 11 Sunflower _____, kg
- 12 Other (indicate) _____

A19. Are the agreement conditions fulfilled?

- 4 Entirely
- 5 Partially
- 6 Not fulfilled

A20. If they are fulfilled, was it

- 3 Within the established time frame
- 4 With violation of the time frame

A21. What is the most convenient land lease term in your opinion? _____ years

A22. Did you obtain loans during the last year?

- 1 Yes
- 2 No

A23. If yes, then for what term?

- 1 Short term, under one year
- 2 Long term, over one year

A24. Did you sign property share lease agreements?

- 3 Yes
- 4 No

A25. If yes, what is the lease payment per 1000-lei of property?

- 1 Up to 3%
- 2 3-5%
- 3 Over 5%

A26. What are your future plans?

- 5 To buy land
- 6 To extend the agreements signed with lessors
- 7 To stop farming a part of agricultural land
- 8 To purchase agricultural machinery and processing equipment
- 9 Other

(indicate)

C1. Your age _____

C2. Your education

- 6 Secondary
- 7 Agricultural vocational
- 8 Non-agricultural vocational
- 9 Agricultural university
- 10 Non-agricultural university

C2. Do you know that a Draft Law on Agricultural Land Consolidation through liquidation of private legal forms and creation of collective-type enterprises has been developed?

- 1 Yes
- 2 No

C3. What is your attitude towards consolidation of land through creation of production cooperatives?

- 1 Positive
- 2 Negative

C4. If your attitude is negative, why?

- 1 Landownership right is eliminated
- 2 The general meeting serves as a supreme body
- 3 Cooperative managers and specialists become irresponsible
- 4 All assets become ownerless
- 5 Conditions for embezzlement are created
- 6 Other (indicate) _____

C5. What legal form would you prefer?

- 6 Limited Liability Company
- 7 Peasant Farm
- 8 Production Cooperative
- 9 Joint Stock Company

C6. Why do you prefer this legal form? Please, indicate

C7. What do you think about the attitude of agricultural landowners towards land consolidation through creation of collective-type farms?

- 1 Will support this action
- 2 Will not support this action
- 3 Will support _____ %

C8. How many years did you work as agricultural enterprise manager before privatization?

- 1 Didn't work
- 2 Under 10 years
- 3 Over 10 years
- 4 Worked as an enterprise specialist
- 5 Did not work in agriculture

C9. Did you change the legal form of your enterprise in the post-privatization period?

- 1 Yes
- 2 No

C10. If yes, explain the reason?

- 1 The legal form of the enterprise did not comply with the legislation
- 2 The new legal form is much more attractive
- 3 Land lessors made me change the legal form

C11. Do you intend to plant orchards or vineyards on the leased land?

- 1 Yes
- 2 No

C12. If no, explain why?

- 1 The legislation on agricultural land lease changes very often
- 2 I am afraid to invest money in the land owned by other people
- 3 Very high interest rate on credits
- 4 Other (indicate)

C13. Would you like to buy land?

- 1 Yes
- 2 No

C14. Will you continue your activity in agriculture if you are “invited” to work in a collective-type agricultural enterprise?

- 1 Yes
- 2 No
- 3 Don't know